



FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholder and the Board of Directors of
FortisBC Inc.

Opinion

We have audited the consolidated financial statements of FortisBC Inc. (the "Corporation"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impact of Rate Regulation on the Financial Statements — Refer to Note 2 to the Financial Statements

Key Audit Matter Description

The Corporation is subject to rate regulation and annual earnings oversight by the British Columbia Utilities Commission ("BCUC"). Rates and resultant earnings of the Corporation are determined under performance-based rate-setting mechanism. The regulation of rates is premised on reasonable opportunity to recover prudently incurred costs and an allowed rate of return on common shareholders' equity ("ROE"). Regulatory decisions can have an impact on the timely recovery of costs and the regulator-approved ROE. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as

property, plant, and equipment; regulatory assets and liabilities; operating revenues and expenses; income taxes; and depreciation expense.

We identified the impact of rate regulation as a key audit matter due to the significant judgments made by management to support its assertions about impacted account balances and disclosures and the high degree of subjectivity involved in assessing the potential impact of future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery of costs incurred or a refund to customers through the rate-setting process. While the Corporation has indicated they expect to recover costs from customers through regulated rates, there is a risk that the BCUC will not approve full recovery of the costs incurred. Auditing these matters required especially subjective judgement and specialized knowledge of accounting for rate regulation due to its inherent complexities.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to the likelihood of recovery of costs incurred or a refund to customers through the rate-setting process, included the following, among others:

- Evaluating the effectiveness of controls over the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- Evaluating the likelihood of recovery in future rates or of a future reduction in rates by assessing relevant regulatory orders, regulatory statutes and interpretations as well as procedural memorandums, utility and intervenor filings, and other publicly available information.
- For regulatory matters in process, inspecting the Corporation's filings and intervenor filings for any evidence that might contradict management's assertions. We obtained an analysis from management regarding cost recoveries or a future reduction in rates.
- Evaluating the Corporation's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brenton Francis.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
February 9, 2023

FortisBC Inc.
Consolidated Balance Sheets
As at December 31
(in millions of Canadian dollars)

ASSETS	2022	2021
Current assets		
Accounts receivable and other current assets, net (notes 4 and 22)	\$ 68	\$ 66
Inventories	1	1
Prepaid expenses	3	2
Regulatory assets (note 8)	8	7
Total current assets	80	76
Property, plant and equipment, net (note 6)	1,784	1,720
Intangible assets, net (note 7)	68	65
Regulatory assets (note 8)	412	424
Other assets (note 5)	16	17
Goodwill (note 9)	235	235
TOTAL ASSETS	\$ 2,595	\$ 2,537
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 21)	\$ 65	\$ 116
Accounts payable and other current liabilities (notes 10 and 22)	97	98
Current portion of long-term debt (notes 11 and 20)	25	-
Current portion of finance lease obligations (note 12)	1	1
Regulatory liabilities (note 8)	11	5
Total current liabilities	199	220
Long-term debt (note 11 and 20)	853	779
Finance lease obligations (note 12)	335	332
Regulatory liabilities (note 8)	55	34
Deferred income tax (note 19)	240	226
Other liabilities (notes 13 and 15)	22	67
Total liabilities	1,704	1,658
Commitments (note 23)		
Equity		
Common shares ¹ (note 14)	299	299
Additional paid-in capital	322	322
Retained earnings	270	258
Total equity	891	879
TOTAL LIABILITIES AND EQUITY	\$ 2,595	\$ 2,537

¹ 500 million authorized common shares with a par value of \$100 each; 3.0 million issued and outstanding at December 31, 2022 and 2021.

Approved on behalf of the Board:

(Signed by) Peter Blake
Director

(Signed by) Roger Dall'Antonia
Director

See accompanying notes to these Consolidated Financial Statements.

FortisBC Inc.
Consolidated Statements of Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2022	2021
Revenue (note 16)	\$ 474	\$ 454
Expenses		
Power purchase costs (note 12)	141	136
Operating costs (notes 4, 12 and 22)	106	101
Property and other taxes	17	17
Depreciation and amortization (notes 6, 7 and 8)	67	65
Total expenses	331	319
Operating income	143	135
Other income	6	5
Finance charges (note 17)	76	73
Earnings before income taxes	73	67
Income tax expense (note 19)	12	11
Net earnings	\$ 61	\$ 56

FortisBC Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31
(in millions of Canadian dollars)

	Common Shares (# millions)	Common Shares	Additional Paid-in Capital	Retained Earnings	Total
As at December 31, 2020	2.7	\$ 269	\$ 322	\$ 249	\$ 840
Net earnings	-	-	-	56	56
Issuance of common shares	0.3	30	-	-	30
Dividends on common shares	-	-	-	(47)	(47)
As at December 31, 2021	3.0	\$ 299	\$ 322	\$ 258	\$ 879
Net earnings	-	-	-	61	61
Dividends on common shares	-	-	-	(49)	(49)
As at December 31, 2022	3.0	\$ 299	\$ 322	\$ 270	\$ 891

See accompanying notes to these Consolidated Financial Statements.

FortisBC Inc.
Consolidated Statements of Cash Flows
For the years ended December 31
(in millions of Canadian dollars)

	2022	2021
Operating activities		
Net earnings	\$ 61	\$ 56
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization (notes 6, 7 and 8)	67	65
Accrued employee future benefits	(3)	(1)
Equity component of allowance for funds used during construction (note 6)	(1)	(1)
Change in regulatory assets and liabilities	12	8
Change in working capital (note 18)	(4)	6
Cash from operating activities	132	133
Investing activities		
Property, plant and equipment additions (note 18)	(122)	(127)
Intangible asset additions	(8)	(8)
Contributions in aid of construction	9	9
Change in other assets and other liabilities	(9)	(10)
Cash used in investing activities	(130)	(136)
Financing activities		
Net (repayment of) proceeds from credit facility (note 21)	(51)	46
Proceeds from issuance (repayment) of long-term debt (note 11)	100	(25)
Debt issuance costs	(1)	-
Repayment of finance lease obligations	(1)	(1)
Issuance of common shares	-	30
Dividends on common shares	(49)	(47)
Cash (used in) from financing activities	(2)	3
Net change in cash	-	-
Cash at beginning of year	-	-
Cash at end of year	\$ -	\$ -

Supplementary Information to Consolidated Statements of Cash Flows (note 18).

See accompanying notes to these Consolidated Financial Statements.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. ("FBC" or the "Corporation") is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific") which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 187,900 customers directly and indirectly. The Corporation's business includes four hydroelectric generating plants, and approximately 7,300 kilometers of transmission and distribution power lines, and a historical peak demand of 835 megawatts, which occurred during the fourth quarter of 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These Consolidated Financial Statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are presented in Canadian dollars unless otherwise specified. In management's opinion, the Consolidated Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through February 9, 2023, the date these Consolidated Financial Statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the Consolidated Financial Statements as at December 31, 2022. No subsequent events have been identified for disclosure in these Consolidated Financial Statements.

Regulation

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's Consolidated Financial Statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from those for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ended December 31, 2022 and 2021 are described in these "Summary of Significant Accounting Policies", note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 12 "Leases", note 13 "Other Liabilities", note 15 "Employee Future Benefits", note 17 "Finance Charges", and note 19 "Income Taxes".

When the BCUC issues decisions affecting the financial statements, the effects of the decision are usually recorded in the period in which the decision is received. In the event that a regulatory decision is received after the balance sheet date but before the Consolidated Financial Statements are issued, the facts and circumstances are reviewed to determine whether it is a recognized subsequent event.

Cash

Cash includes cash and short-term deposits with maturities of three months or less from the date of deposit.

Allowance for Credit Losses

The Corporation records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The credit loss allowance is estimated based on historical experience, current conditions, reasonable and supportable economic forecasts, and accounts receivable aging. In addition to historical collection patterns, the Corporation considers customer class, customer size, economic indicators and certain other risk characteristics when evaluating the credit loss allowance. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulatory Assets and Liabilities

The BCUC has the general power to include or exclude costs, revenues, losses or gains in the rates of a specified period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs incurred that will be, or are probable to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such, the BCUC could alter the amounts subject to deferral, at which time the change would be reflected in the Consolidated Financial Statements. For regulatory assets and liabilities which are amortized, the amortization is approved by the BCUC. Certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

Inventories

Inventories represent materials and supplies held for day-to-day operations and for the maintenance of property, plant and equipment. Inventory held for construction or used only in connection with an item of property, plant and equipment is classified as property, plant and equipment. Inventory is measured at the lower of average cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and unamortized contributions in aid of construction ("CIAC"). Cost includes all direct expenditures, betterments and replacements and as prescribed by the BCUC, an allocation of overhead costs and both a debt and an equity component of allowance for funds used during construction ("AFUDC") at approved rates.

Certain additions to property, plant and equipment are made with the assistance of CIACs from customers when the estimated revenue is less than the cost of providing service or when special equipment is needed to supply the customers' specific requirements.

Depreciation is based on rates approved by the BCUC and is calculated on a straight-line basis on the investment in property, plant and equipment commencing at the beginning of the year following when the asset is available for use.

As approved by the BCUC, the remaining book value after the removal of property, plant and equipment is charged to accumulated depreciation. It is expected that these amounts charged to accumulated depreciation will be reflected in future depreciation expense when refunded or collected in customer rates.

As approved by the BCUC, removal costs are collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the accrual balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service, whether through actual removal of the asset or through disconnection from the transmission or distribution system.

Intangible Assets

Intangible assets are comprised of right of ways and software not directly attributable to the operation of property, plant and equipment and are recorded at cost less accumulated amortization. Included in the cost of intangible assets are all direct expenditures, betterments and replacements and, as prescribed by the BCUC, an allocation of overhead costs and both a debt and equity component of AFUDC at approved rates.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is based on rates approved by the BCUC and is calculated on a straight-line basis commencing at the beginning of the year following when the asset is available for use.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

No impairment provision has been determined for the years ended December 31, 2022 and 2021.

Leases

Leases that transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the present value of the minimum lease payments. Included as leases are any arrangements that qualify as leases by conveying the right to use a specific asset.

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 is recognized on the balance sheet. 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. Future lease payments include both lease components and fixed non-lease components, which the Corporation accounts for as a single lease component.

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. 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.

Finance leases are amortized over the lease term, except where ownership of the asset is transferred at the end of the lease term, in which case finance leases are amortized over the estimated service life of the underlying asset. Where the BCUC has approved recovery of the lease payments for rate-setting purposes instead of the depreciation expense and finance charges otherwise recognized for accounting purposes, specifically for the Brilliant Power Purchase Agreement ("BPPA") and the Brilliant Terminal Station ("BTS") included in note 12 "Leases", the depreciation expense related to the lease is modified to conform with the rate-setting process. Therefore, the total depreciation expense and finance charges recognized during a period equals the power purchase costs or operating expense included in allowable costs for rate-making purposes during that period, with the difference recognized as a regulatory asset to be recovered from customers over the term of the related arrangements.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset and eventual disposition. If the carrying amount of an asset exceeds its estimated future cash flows and eventual disposition, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Asset-impairment testing is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets' carrying value, including a fair return on capital or assets, is provided through customer electricity rates approved by the BCUC. The net cash inflows for the Corporation are not asset-specific but are pooled for the entire regulated utility. There was no impairment of regulated long-lived assets for the years ended December 31, 2022 and 2021.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any write-down for impairment.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment testing is performed if any event occurs or if circumstances change that would indicate that the fair value of the Corporation was below its carrying value. If that is the case, goodwill is written down to estimated fair value and an impairment loss is recognized. No such event or changes in circumstances occurred during 2022 or 2021.

Otherwise, the Corporation performs an annual assessment of goodwill which was performed by the Corporation during 2022 and it was concluded that it is more likely than not that the fair value of the reporting unit was greater than the carrying value and that goodwill was not impaired.

Asset Retirement Obligations

The Corporation recognizes the fair value of a future Asset Retirement Obligation (“ARO”) as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The fair value of the ARO is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the ARO is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are recognized as a regulatory asset using the effective interest method. Changes in the obligation due to changes in estimated cash flows are to be recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The Corporation has AROs for which the obligations cannot be reasonably estimated at this time. These AROs are primarily associated with the Corporation’s hydroelectric generating facilities and assets associated with interconnection facilities. While each of the foregoing will have legal asset retirement obligations (i.e. land and environmental remediation and/or removal of assets), the final date of removal of the related assets and the costs to do so cannot be reasonably determined at this time. There is a reasonable expectation that asset retirement costs would be recoverable through future rates.

Revenue Recognition

Revenue from Contracts with Customers

Electricity revenue is billed at rates approved by the BCUC and is bundled to include the cost of generating, transmitting and distributing electricity. The rate includes customer service as well as other corporate and service functions.

The majority of the Corporation’s revenue is derived from electricity sales to residential, commercial, wholesale, and industrial customers. Most of the Corporation’s contracts have a single performance obligation, the delivery of electricity. Substantially all of the Corporation’s performance obligations are satisfied over time as electricity is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, kilowatt hours (“kWh”) delivered. The billing of electricity sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month. Electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each reporting date. No component of the transaction price is allocated to unsatisfied performance obligations.

Other contract revenue from customers includes surplus capacity sales, third party contract work and pole attachments. Surplus capacity sales are recognized when the capacity or energy is delivered at the amount of consideration set out in the contracts. Third party contract revenue relates to operations, maintenance and management services rendered to third party owned hydroelectric generation facilities and is recognized as services are provided. Pole attachment revenue is earned from third party attachments to utility infrastructure and is recognized over time.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Alternative Revenue

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by the BCUC are met. The Corporation has identified its Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue as alternative revenue.

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from allowed Return on Equity ("ROE") approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current Multi-Year Rate Plan ("MRP") for 2020 to 2024. In addition, alternative revenue includes variances in the forecast versus actual customer revenue in a flow-through deferral account to be either refunded to or recovered from customers in rates within two years.

Other Revenue (Expense)

Other revenue (expense) is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for electricity revenue. As part of the decision received on FBC's MRP application for the years 2020 to 2024 ("MRP Decision"), effective January 1, 2020 and effective through to the end of the MRP term, the Corporation has a flow-through deferral account that captures variances from certain regulated forecast revenues and other expenses, including those that are not controllable or associated with clean growth capital expenditures, and that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

The Corporation disaggregates revenue by type of customer, as disclosed in note 16. This represents the level of disaggregation used by the Corporation to evaluate performance.

Employee Future Benefits

The Corporation sponsors a number of post-employment benefit plans. These plans include defined benefit, unfunded supplemental, and various other post-employment benefit ("OPEB") plans.

The cost of pensions and OPEBs earned by employees are actuarially determined as an employee accrues service. The Corporation uses the projected benefit pro-rata method based on years of service, management's best estimates of expected returns on plan assets, salary escalation, retirement age, mortality and expected future health-care costs. The discount rate used to value liabilities is based on Corporate AA bond yields with cash flows that match the timing and amount of the expected benefit payments under the plans. The Corporation uses a measurement date of December 31 for all plans.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and the fair market value of plan assets.

Adjustments, in excess of 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets that result from changes in assumptions and experience gains and losses, are amortized straight-line over the expected average remaining service life, or the expected average remaining life expectancy, of the employee group covered by the plans. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

The Corporation records the funded or unfunded status of its defined benefit pension plans and OPEB plans on the balance sheet. Unamortized balances relating to past service costs and net actuarial gains and losses have been recognized in regulatory assets and are expected to be recovered from customers in future rates. Subsequent changes to past service costs and net actuarial gains and losses are recognized as an expense, where required by the BCUC, or otherwise as a change in the regulatory asset or liability. The Corporation also provides a defined contribution pension arrangement to certain employees not covered by the defined benefit plans. Defined contribution plan costs are expensed by the Corporation as contributions are payable.

FortisBC Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation capitalizes the eligible portion of the current service cost component of net benefit cost. The remaining portion of current service cost not capitalized is grouped in the Consolidated Statements of Earnings with other employee compensation costs arising from services rendered. The non-service cost components of net benefit cost are presented in other income.

Fair Value

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. The fair values of the Corporation's financial instruments reflect point-in-time estimates based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchases and normal sales exception.

Derivative Financial Instruments

Derivative instruments are recognized as either assets or liabilities on the balance sheet and are measured at fair value unless they meet the normal purchases and normal sales scope exception. The Corporation continually assesses its contracts, including its power purchase agreements, to determine whether they meet the criteria of a derivative, and if so, whether they qualify for the normal purchases and normal sales scope exception.

Debt Issuance Costs

Costs incurred to arrange debt financing are recognized as a direct deduction from the carrying amount of the debt liability and are accounted for using the effective interest method over the life of the related financial liability.

Sales Taxes

In the course of its operations, the Corporation collects sales taxes from its customers. When customers are billed, a current liability is recognized for the sales taxes included on the customer's bill. This liability is settled when the taxes are remitted to the appropriate government authority. The Corporation's revenue excludes the sales taxes.

Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not (greater than a 50 per cent chance) to be realized.

The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that will be in effect when the temporary differences are expected to be recovered or settled. As a result of rate regulation, deferred income taxes incurred related to regulated operations have been offset by a corresponding regulatory asset or liability resulting in no impact on net earnings. Current income tax expense or recovery is recognized for the estimated income taxes payable or receivable in the current year.

As approved by the BCUC, the Corporation recovers income tax expense in customer rates based only on income taxes that are currently payable for regulatory purposes, except for certain regulatory asset and liability accounts specifically prescribed by the BCUC. Therefore, current customer rates do not include the recovery of deferred income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. An offsetting regulatory asset or liability is recognized for the amount of income taxes that is expected to be collected in rates once the amount becomes payable.

Any difference between the expense recognized and that recovered from customers in current rates for income tax expense that is expected to be recovered, or refunded, in future customer rates is subject to deferral treatment as described in note 8 "Regulatory Assets and Liabilities".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation recognizes a tax benefit if it is more likely than not that a tax position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the merits of the position. The tax benefit recognized in the financial statements is measured based on the largest amount of benefit that is greater than 50 per cent likely to be realized upon settlement. The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to this guidance represents an unrecognized tax benefit.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

Segment Reporting

The Corporation has a single reportable segment.

Use of Accounting Estimates

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates is described in the "Summary of Significant Accounting Policies", in note 8 "Regulatory Assets and Liabilities", and note 23 "Commitments". Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

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 year ended December 31, 2022, there were no ASUs issued by FASB that have a material impact on these Consolidated Financial Statements.

Future Accounting Pronouncements

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

FortisBC Inc.
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3. REGULATORY MATTERS

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 the 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 ROE.

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

In December 2021, the BCUC approved a rate increase of 3.47 per cent over 2021 rates, effective January 1, 2022. As part of this filing, a 2022 average rate base of \$1,583 million was approved.

4. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation’s accounts receivable as at December 31 were as follows:

<i>(\$ millions)</i>	2022	2021
Accrued unbilled revenue from contracts with customers	43	36
Billed accounts receivable from contracts with customers	19	19
Receivables for third party services	6	11
Income and other taxes receivable	2	-
Other receivables and assets ¹	1	1
Amounts due from related parties (note 22)	-	2
Allowance for credit losses	(3)	(3)
Total accounts receivable and other current assets	68	66

¹ Representative of receivables not related to contracts with customers.

Accounts receivable are recorded net of an allowance for credit losses. The credit loss allowance recorded for the year ended December 31, 2022 considered current and forecasted economic conditions.

The change in the allowance for credit losses balance is as follows:

<i>(\$ millions)</i>	2022	2021
Beginning of year	(3)	(4)
Credit losses expensed	(1)	(1)
Credit losses deferred (note 8)	-	1
Write-offs, net of recoveries	1	1
End of year	(3)	(3)

FortisBC Inc.
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5. OTHER ASSETS

<i>(\$ millions)</i>	2022	2021
Pension asset (note 15)	14	15
Other assets	2	1
Operating leases (note 12)	-	1
Total other assets	16	17

6. PROPERTY, PLANT AND EQUIPMENT

December 31, 2022	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
<i>(\$ millions)</i>				
Generation	370	(81)	289	1.6%
Transmission	834	(260)	574	1.7%
Distribution	731	(146)	585	2.0%
Plant, buildings and equipment	175	(58)	117	5.4%
Finance lease assets	310	(106)	204	2.0%
Assets under construction	15	-	15	-
Total property, plant and equipment	2,435	(651)	1,784	

December 31, 2021	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
<i>(\$ millions)</i>				
Generation	353	(76)	277	1.6%
Transmission	782	(249)	533	1.7%
Distribution	694	(136)	558	2.0%
Plant, buildings and equipment	166	(56)	110	5.6%
Finance lease assets	306	(100)	206	2.0%
Assets under construction	36	-	36	-
Total property, plant and equipment	2,337	(617)	1,720	

As allowed by the BCUC, during the year ended December 31, 2022, the Corporation capitalized a debt component of AFUDC of \$1 million (December 31, 2021 - \$1 million) and an equity component of AFUDC of \$1 million (December 31, 2021 - \$1 million), and approved capitalized overhead costs of \$10 million (December 31, 2021 - \$10 million).

Depreciation of property, plant and equipment, including a net salvage provision, for the year ended December 31, 2022 totaled \$57 million (December 31, 2021 - \$55 million).

Included in the book value of property, plant and equipment are asset retirement costs totaling \$nil (December 31, 2021 - \$1 million). Depreciation on the asset retirement costs was recorded in other recoverable costs in regulatory assets (note 8), and the corresponding liability has been recorded as an ARO in other liabilities (note 13).

Finance lease assets include the BPPA and BTS arrangements. Depreciation of \$6 million (December 31, 2021 - \$5 million) on the BPPA finance lease asset was recorded in the BPPA lease costs regulatory asset (note 8) and depreciation of \$1 million (December 31, 2021 - \$1 million) on the BTS finance lease asset was recorded in the BTS lease costs regulatory asset (note 8).

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7. INTANGIBLE ASSETS

December 31, 2022	Cost	Accumulated Amortization	Book Value
<i>(\$ millions)</i>			
Software	58	(24)	34
Land rights	40	(6)	34
Total intangible assets	98	(30)	68

December 31, 2021	Cost	Accumulated Amortization	Book Value
<i>(\$ millions)</i>			
Software	56	(24)	32
Land rights	39	(6)	33
Total intangible assets	95	(30)	65

There was no impairment of intangible assets for the years ended December 31, 2022 and 2021.

Amortization of intangible assets for the year ended December 31, 2022 totaled \$6 million (December 31, 2021 - \$5 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 9.1 per cent (December 31, 2021 - 9.1 per cent). Amortization of land rights is recorded on a straight-line basis using an amortization rate of 1.2 per cent (December 31, 2021 - 1.2 per cent).

Included in the cost of land rights at December 31, 2022 was \$18 million (December 31, 2021 - \$18 million) not subject to amortization.

The following is the estimated amortization expense for each of the next five years:

<i>(\$ millions)</i>	
2023	5
2024	5
2025	4
2026	3
2027	2

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8. REGULATORY ASSETS AND LIABILITIES

Based on existing regulatory orders or the expectation of future regulatory orders, the Corporation has recorded the following amounts, net of income tax and amortization where applicable, which are expected to be recovered from or refunded to customers as at December 31:

<i>(\$ millions)</i>	2022	2021	Remaining Refundable Period (Years)
Regulatory assets			
Regulated asset for deferred income taxes (note 19) (i)	241	228	Ongoing
BPPA lease costs (note 12) (ii)	128	122	34
Demand side management program (iii)	37	35	10
Pension and OPEB unrecognized actuarial losses and past service costs (note 15) (iv)	-	33	Ongoing
Income taxes recoverable on OPEBs (v)	5	5	Ongoing
BTS lease costs (note 12) (vi)	4	5	30
Pension and OPEB cost variance (vii)	2	-	3
Other recoverable costs (viii)	3	3	Various
Total regulatory assets	420	431	
Less: current portion	8	7	
Long-term portion of regulatory assets	412	424	

<i>(\$ millions)</i>	2022	2021	Remaining Refundable Period (Years)
Regulatory liabilities			
Net salvage provision (ix)	35	27	Ongoing
Flow-through variances (x)	19	9	1
Net pension and OPEB unrecognized actuarial gains and past services costs (note 15) (iv)	8	-	Ongoing
Earnings sharing mechanism (xi)	2	2	1
Debt issuance costs under effective interest method (xii)	1	1	Up to 30
Other refundable costs (viii)	1	-	Various
Total regulatory liabilities	66	39	
Less: current portion	11	5	
Long-term portion of regulatory liabilities	55	34	

Net amortization expense of regulatory assets and liabilities, excluding a net salvage provision, for the year ended December 31, 2022 totaled \$4 million (December 31, 2021 - \$5 million).

(i) Regulated Asset for Deferred Income Taxes

FBC recognizes deferred income tax assets and liabilities, and related regulatory liabilities and assets, for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future rates. Included in deferred income tax assets and liabilities are the future income tax effects of the subsequent settlement of the related regulatory liabilities and assets through customer rates.

The regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable, and is not subject to a regulatory return.

FortisBC Inc.
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8. REGULATORY ASSETS AND LIABILITIES (continued)

(ii) BPPA Lease Costs

The depreciation on the BPPA finance lease asset (note 6) and the interest expense associated with the BPPA lease obligation (note 17) are not being fully recovered by the Corporation in current customer rates since those rates include only the payments set out under the BPPA. The BPPA payments, including the related variable operating costs, are recovered as power purchase costs rather than as finance lease depreciation and interest expense. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, which ends in 2056, and is not subject to a regulatory return.

(iii) Demand Side Management Program

The Corporation's Demand Side Management ("DSM") program funds incentives and provides energy management services to promote efficiency programs for its customers. As approved by the BCUC, the Corporation recovers these costs in rates over a 10-year period.

(iv) Pension and OPEB Unrecognized Actuarial Losses or Gains and Past Service Costs

The net funded status, being the difference between the fair value of plan assets and the projected benefit obligation for pensions and OPEBs, is required to be recognized on the Corporation's balance sheet under ASC Topic 715, *Compensation – Retirement Benefits*. The amount required to make this net funded status adjustment, which would otherwise be recognized in Accumulated Other Comprehensive Income ("AOCI"), has instead been deferred as a regulatory asset or liability. The regulatory asset or liability balance represents the deferred portion of the actuarial gains or losses relating to pensions and OPEBs that is expected to be refunded to or recovered from customers in future rates as the deferred amounts are included as a component of future net benefit cost.

(v) Income Taxes Recoverable on OPEBs

The BCUC allows OPEB plan costs to be collected in customer rates on an accrual basis, rather than on a cash basis, which creates timing differences for income tax purposes. As approved by the BCUC, the tax effect of this timing difference is deferred as a regulatory asset and will be reduced as cash payments for OPEB plans exceed required accruals and amounts collected in customer rates. This regulatory asset balance is expected to be recovered from customers in future rates.

(vi) BTS Lease Costs

The depreciation on the BTS finance lease asset (note 6) and the interest expense associated with the BTS lease obligation (note 17) have not been fully recovered by the Corporation in current customer rates since those rates include only the payments set out under an agreement to lease the BTS. The BTS payments, including the related variable operating costs, are recovered as operating costs rather than as finance lease depreciation and interest expense. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, and is not subject to a regulatory return.

(vii) Pension and OPEB Cost Variance

As approved by the BCUC, the pension and OPEB cost variance account accumulates differences between pension and OPEB expenses that are approved for recovery in rates and the actuarially determined pension and OPEB expense. The regulatory asset balance is expected to be recovered from customers in future rates over 3 years.

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8. REGULATORY ASSETS AND LIABILITIES (continued)

(viii) Other Recoverable and Refundable Costs

Regulatory assets and liabilities that have been aggregated in the tables above as other items relate to smaller deferral accounts. These accounts either have been approved by the BCUC for recovery from or refund to customers or are expected to be approved. The approved amounts are being amortized over various periods depending on the nature of the costs. Included in other recoverable costs is the COVID-19 Customer Recovery Fund deferral account, which captures the otherwise uncollectible revenues associated with providing certain deferral and relief offerings to the Corporation's customers during the COVID-19 pandemic; as well as the cumulative transition amount that existed between the pension and OPEB amounts to be recognized under ASC Topic 715 which would otherwise would have been recognized in retained earnings, but instead were approved by the BCUC to be collected from customers over a term of twelve years beginning on January 1, 2012.

(ix) Net Salvage Provision

The net salvage provision account captures the provision for costs which will be incurred to remove assets from service in a future period. As actual removal costs are incurred, the net salvage provision account is drawn down. For the year ended December 31, 2022, \$15 million (December 31, 2021 - \$15 million) was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the year ended December 31, 2022 were \$7 million (December 31, 2021 - \$12 million).

(x) Flow-through Variances

As part of the MRP Decision and effective January 1, 2020, the Corporation has a flow-through deferral account that captures certain variances from regulated forecast revenues and other expenses, including those that are not controllable or associated with clean growth expenditures, and that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

(xi) Earnings Sharing Mechanism

The Earnings Sharing Mechanism deferral account captures the customer portion of the sharing of variances from the allowed ROE under the MRP Decision. The BCUC has approved the refund or recovery of these variances in customer rates in the following year.

(xii) Debt Issuance Costs Under Effective Interest Method

This balance represents the cumulative difference between applying the effective interest method for amortizing debt issuance costs and the straight-line amortization method used in setting customer rates. This regulatory liability represents the cumulative difference between the two amortization methods which will be refunded to customers over the term of the outstanding debt through future rates, and is not subject to a regulatory return.

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9. GOODWILL

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of FBC. The consideration paid for this acquisition has been recorded in the Corporation's financial statements using push-down accounting. In addition to goodwill of \$220 million (December 31, 2021 - \$220 million) for the excess of the purchase price paid by Fortis over the fair value of the net assets acquired, the Corporation has recognized additional paid-in capital related to the push-down of the acquisition accounting.

FBC has also recognized a total of \$15 million (December 31, 2021 - \$15 million) in goodwill related to the excess of the purchase price over the fair value of the net assets of electric utility businesses acquired by the Corporation in the Princeton area on December 31, 2006 and the Kelowna area on March 29, 2013.

There was no impairment of goodwill for the years ended December 31, 2022 and 2021.

10. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(\$ millions)</i>	2022	2021
Trade accounts payable	38	41
Power purchase and wheeling accruals	16	17
Employee compensation and benefits payable	16	15
Customer deposits	15	12
Interest payable	9	5
Pension and other post-employment benefits (note 15)	1	1
Amounts due to related parties (note 22)	1	2
Income and other taxes payable	1	4
Other current liabilities	-	1
Total accounts payable and other current liabilities	97	98

11. LONG-TERM DEBT

<i>(\$ millions)</i>	2022	2021
Secured Debentures		
8.80% Series G, due August 28, 2023	25	25
Unsecured Debentures		
5.60% Series 05-1, due November 9, 2035	100	100
5.90% Series 07-1, due July 4, 2047	105	105
6.10% Series 1, due June 2, 2039	105	105
5.00% Series 2, due November 24, 2050	100	100
4.00% Series 3, due October 28, 2044	200	200
3.62% Series 4, due December 6, 2049	75	75
3.12% Series 5, due May 11, 2050	75	75
4.16% Series 6, due March 14, 2052	100	-
Total long-term debt	885	785
Less: current portion of long-term debt	25	-
Total long-term debt, excluding current portion	860	785
Less: debt issuance costs	7	6
Total long-term debt, net of debt issuance costs	853	779

Secured and Unsecured Debentures

The Series G secured debentures are collateralized by a fixed and floating first charge on the assets of the Corporation. The secured Series G debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis.

FortisBC Inc.
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11. LONG-TERM DEBT (continued)

On March 10, 2022, FBC entered into an agreement with an affiliate of a Canadian Chartered Bank to sell \$100 million of unsecured MTN Debentures. These MTN Debentures bear interest at a rate of 4.16 per cent to be paid semi-annually and mature on March 14, 2052. The closing of the issuance occurred on March 14, 2022, with net proceeds being used to repay existing credit facilities.

All of the Corporation's debentures are redeemable, in whole or in part, at the option of the Corporation, at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption.

The Corporation has externally imposed capital requirements to which it is subject to that include interest coverage ratios and limitations on the amount of debt that can be incurred relative to equity. As at December 31, 2022 and 2021, the Corporation was in compliance with these externally imposed capital requirements.

See note 23 "Commitments" for required principal and interest payments for long-term debt over the next five years and thereafter.

12. LEASES

Finance Leases

The Corporation has recognized finance leases for the BPPA, which is an arrangement that contains a lease for the purchase of the output of the Brilliant hydroelectric plant, and for the BTS, which relates to an agreement that contains a lease for the use of a substation. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, as well as sustaining capital charges, and related variable power purchase costs. Under the BTS, FBC pays semi-annual payments based on a charge related to the recovery of the capital cost of the BTS, and related variable operating costs. Given the impacts of accounting for regulated operations, the recognition of interest and amortization expense is equal to the amounts recovered in rates.

Operating Lease

In 2021, the Corporation leased an office facility from a related party, FortisBC Energy Inc. ("FEI"), with a remaining term of one year and, in 2022, the agreement was extended on a month to month basis. The rental payment is fixed throughout the term of the lease with no escalating factors and there are no additional variable payments above the fixed monthly rent.

The following table details supplemental balance sheet information related to the Corporation's leases for the year ended December 31:

<i>(\$ millions)</i>	Classification	2022	2021
Assets			
Long-term			
Operating lease	Other assets (note 5)	-	1
Finance leases	Property, plant and equipment, net (note 6)	204	206
Finance lease deferral	Regulatory assets (note 8)	132	127
Total lease assets		336	334
Liabilities			
Current			
Operating lease	Accounts payable and other current liabilities (note 10)	-	1
Finance leases	Current portion of finance lease obligations	1	1
Long-term			
Finance leases	Finance lease obligations	335	332
Total lease liabilities		336	334

FortisBC Inc.
Notes to the Consolidated Financial Statements
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12. LEASES (continued)

The following table presents the components of the Corporation's lease cost for the year ended December 31:

<i>(\$ millions)</i>	2022	2021
Finance lease cost – interest (note 17)	33	32
Variable lease cost – power purchase costs and operating costs	12	12
Total lease cost	45	44

As at December 31, 2022, the present value of the future cash flows required over the next five years and thereafter are as follows:

<i>(\$ millions)</i>	Total
2023	34
2024	34
2025	35
2026	35
2027	36
Thereafter	1,001
Subtotal	1,175
Less: amounts representing imputed interest	839
Total finance leases	336
Less: current portion	1
Long-term portion	335

The Corporation provides the following supplemental information related to its leases for the years ended December 31:

Lease Term and Discount Rate	2022	2021
Weighted-average remaining lease term (years)		
Operating lease	-	1
Finance leases	33	34
Weighted-average discount rate (%)		
Operating lease	-	3.0%
Finance leases	5.1%	5.1%

During the years ended December 31, 2022 and 2021, there were no right-of-use assets obtained in exchange for operating lease liabilities.

13. OTHER LIABILITIES

<i>(\$ millions)</i>	2022	2021
Pension and OPEB liabilities (note 15)	21	65
Other liabilities ¹	1	2
Total other liabilities	22	67

¹ Included in other liabilities is an ARO.

Asset Retirement Obligation

FBC has recognized an ARO based on an estimate of the fair value and timing of estimated future expenditures associated with the removal of insulating oil in certain electrical equipment that is contaminated with polychlorinated biphenyls ("PCBs"). The determination of the ARO is based on PCB regulations under the Canadian Environmental Protection Act, 1999 which govern the management and storage of PCBs as well as impose timelines for disposal based on certain criteria including type of equipment, in-use status and PCB-contamination thresholds. The Corporation must identify and remove certain levels of PCBs in certain of its electrical equipment assets by 2025 to be compliant with the PCB regulations.

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13. OTHER LIABILITIES (continued)

The asset retirement cost has been capitalized to property, plant and equipment (note 6). Actual costs incurred upon settlement of an ARO are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the ARO and the remaining balance is expected to be recognized as a regulatory asset or liability at that time.

The credit-adjusted risk-free discount rates used to calculate the present value of the obligation is 3.0 per cent. Total estimated undiscounted future cash flows required to comply with the PCB regulations between 2023 and 2024 is not material.

14. SHARE CAPITAL

Authorized Share Capital

The Corporation is authorized to issue 500,000,000 common shares, with a par value of \$100 each and 500,000,000 preferred shares, with a par value of \$25 each, issuable in series.

Common Shares

Issued and outstanding common shares as at December 31 are as follows:

	2022		2021	
	Number of Shares	Amount (\$millions)	Number of Shares	Amount (\$millions)
Outstanding, beginning of year	2,991,510	299	2,691,510	269
Issued	-	-	300,000	30
Outstanding, end of year	2,991,510	299	2,991,510	299

15. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. In addition to pensions, the Corporation provides OPEB for certain retired employees.

Defined Benefit Pension Plans

The Corporation sponsors three defined benefit pension plans, one of which is closed to new entrants. Retirement benefits are based on employees' years of credited service and remuneration. Corporation contributions to the plans are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as at December 31, 2019 and 2021 and the dates of the next required valuations will be as at December 31, 2022 and 2024.

Supplemental Plans

Certain employees are eligible to receive supplemental benefits. The supplemental plans provide pension benefits in excess of statutory limits and are unfunded.

Defined Contribution Plans

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's 2022 net benefit cost related to this arrangement was \$2 million (December 31, 2021 - \$1 million).

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15. EMPLOYEE FUTURE BENEFITS (continued)
Other Post-Employment Benefits

The Corporation provides certain retired employees with OPEBs that include, depending on circumstances, supplemental health, dental and life insurance coverage. OPEBs are unfunded and the annual net benefit cost is recorded on an accrual basis based on independent actuarial determinations, considering, among other factors, health-care cost escalation. The date of the next required valuation will be as at December 31, 2024.

The financial positions of the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows as at December 31:

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Change in fair value of plan assets				
Balance, beginning of year	263	246	-	-
Actual (loss) return on plan assets	(33)	18	-	-
Employer contributions	5	5	1	1
Employee contributions	3	3	-	-
Benefits paid	(10)	(9)	(1)	(1)
Fair value, end of year	228	263	-	-
Change in projected benefit obligation				
Balance, beginning of year	286	280	28	28
Employee contributions	3	3	-	-
Current service cost	6	7	1	1
Interest costs	9	8	1	1
Benefits paid	(10)	(9)	(1)	(1)
Actuarial gain	(78)	(3)	(9)	(1)
Balance, end of year ¹	216	286	20	28
Funded / (Unfunded) Status	12	(23)	(20)	(28)

¹ The accumulated benefit obligation for defined benefit pension plans, excluding assumptions about future salary levels, was \$189 million (December 31, 2021 - \$253 million).

The following table summarizes the employee future benefit assets and liabilities and their classification in the Consolidated Balance Sheets as at December 31:

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Other assets (note 5)	(14)	(15)	-	-
Accounts payable and other current liabilities (note 10)	-	-	1	1
Other liabilities (note 13)	2	38	19	27
Net (asset) liability	(12)	23	20	28

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15. EMPLOYEE FUTURE BENEFITS (continued)

The net benefit cost for the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows for the years ended December 31:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Service costs	6	7	1	1
Interest costs	9	8	1	1
Expected return on plan assets	(14)	(13)	-	-
Amortization:				
Actuarial losses (gains)	1	2	-	(1)
Past service costs	(1)	(1)	-	-
Regulatory adjustment	(1)	-	-	1
Net benefit cost	-	3	2	2

The components of net benefit cost, other than the service cost component, are included in other income in the Consolidated Statements of Earnings for the years ended December 31, 2022 and 2021.

Defined Benefit Pension Plan Assets

The assets of the Corporation's funded defined benefit pension plans were invested on a weighted average as follows as at December 31:

	Target Allocation	2022	2021
Equities	30% - 50%	41%	37%
Fixed income	30% - 70%	35%	39%
Real estate and infrastructure	0% - 30%	23%	21%
Private equity	0% - 5%	1%	3%
		100%	100%

The investment policy for defined benefit plan assets is to optimize the risk-return ratio using a portfolio of various asset classes. FBC's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost-effective manner while not compromising the security of the respective plans. The pension plans use quarterly rebalancing in order to achieve the target allocations while complying with the constraints of the Pension Benefits Standards Act of British Columbia and the Income Tax Act. The pension plans utilize external investment managers to execute the investment policy. Assets in the plans are held in trust by independent third parties. The pension plans do not directly hold any shares of FBC's parent or affiliated companies.

The fair value measurements of the Corporation's defined benefit pension plan assets by fair value hierarchy level, which are described in further detail in note 20 "Financial Instruments", are as follows as at December 31:

2022	Level 1	Level 2	Level 3	Total
(\$ millions)				
Cash	1	-	-	1
Equities	93	-	-	93
Fixed income	-	78	-	78
Real estate and infrastructure	-	-	53	53
Private equity	-	-	3	3
	94	78	56	228

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15. EMPLOYEE FUTURE BENEFITS (continued)

2021	Level 1	Level 2	Level 3	Total
<i>(\$ millions)</i>				
Cash	1	-	-	1
Equities	106	-	-	106
Fixed income	-	100	-	100
Real estate and infrastructure	-	-	53	53
Private equity	-	-	3	3
	107	100	56	263

The following table is a reconciliation of changes in the fair value of defined benefit pension plan assets that have been measured using Level 3 inputs for the years ended December 31:

<i>(\$ millions)</i>	2022	2021
Balance, beginning of year	56	49
Actual return on plan assets relating to assets still held at the reporting date	3	7
Purchases, sales and settlements	(3)	-
Balance, end of year	56	56

Significant Actuarial Assumptions

The significant weighted average actuarial assumptions used to determine the projected benefit obligation and the net benefit cost are as follows:

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Projected benefit obligation				
Discount rate as at December 31	5.25%	3.00%	5.25%	3.00%
Rate of compensation increase	3.00%	3.00%	-	-
Net benefit cost				
Discount rate as at January 1	3.00%	2.75%	3.00%	2.75%
Expected rate of return on plan assets	6.40%	5.70%	-	-
Health care cost trend rate as at December 31 ¹	-	-	5.00%	5.00%

¹ Ultimate health care cost trend rate was reached in 2018.

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15. EMPLOYEE FUTURE BENEFITS (continued)

The following table provides the components of and changes in the regulatory assets during the year that would otherwise have been recognized in other comprehensive income and AOCI and have not yet been recognized as components of periodic net benefit cost. The total unrecognized actuarial losses and past service costs for pension and OPEB that was recognized as a regulatory liability was \$8 million (2021 - \$33 million regulatory asset).

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Regulatory asset, beginning of year	39	48	(6)	(5)
Net actuarial gains	(31)	(7)	(10)	(1)
Amortization of actuarial losses	(1)	(3)	-	-
Amortization of past service credit	1	1	-	-
Regulatory asset (liability), end of year (note 8)	8	39	(16)	(6)

Funding Contributions

Under the terms of the defined benefit pension plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The Corporation's estimated 2023 contributions are \$3 million (December 31, 2022 - \$4 million).

The Corporation's estimated 2023 OPEB contributions are \$1 million (December 31, 2022 - \$1 million).

Benefit Payments

The following table provides the amount of benefit payments expected to be made over the next 10 years.

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2023	10	1
2024	10	1
2025	11	1
2026	11	1
2027	11	1
2028-2032	61	4
	114	9

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16. REVENUE
Disaggregation of Revenue

The following table presents the disaggregation of the Corporation's revenue by type of customer for the years ended December 31:

<i>(\$ millions)</i>	2022	2021
Residential	214	205
Commercial	113	110
Wholesale	54	52
Industrial	47	38
Total electricity revenue	428	405
Other contract revenue ¹	60	52
Total revenue from contracts with customers	488	457
Alternative revenue ²	(30)	(18)
Other revenue ³	16	15
Total revenue	474	454

¹ Other contract revenue includes utility customer connection fees, surplus power sales, revenue from third party contract work and pole attachments, and revenue from the sale of carbon credits.

² Alternative revenue includes the Earnings Sharing Mechanism, which recognizes the 50/50 sharing of variances from the allowed ROE, and flow-through variances related to tariff-based revenue.

³ Other revenue is primarily comprised of other flow-through and regulatory deferral adjustments resulting from cost recovery variances in regulated forecasts used to set rates for electricity revenue.

17. FINANCE CHARGES

<i>(\$ millions)</i>	2022	2021
Interest on long-term debt	42	41
Interest on short-term debt	2	1
Debt component of AFUDC (note 6)	(1)	(1)
Net interest on debt	43	41
Interest on finance leases (note 12)	33	32
Total finance charges	76	73

18. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Consolidated Statements of Cash Flows for the years ended December 31 are as follows:

<i>(\$ millions)</i>	2022	2021
Interest paid	40	41
Net income tax paid	15	-
Change in working capital		
Accounts receivable and other current assets	(2)	(6)
Prepaid expenses	(1)	-
Accounts payable and other current liabilities	(1)	12
Total change in working capital	(4)	6

FortisBC Inc.
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18. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

Non-Cash Investing Activities

<i>(\$ millions)</i>	2022	2021
As at December 31		
Accrued capital expenditures	25	25

19. INCOME TAXES

Deferred Income Tax

The significant components of deferred income tax assets and liabilities consisted of the following as at December 31:

<i>(\$ millions)</i>	2022	2021
Deferred income tax liability (asset)		
Property, plant and equipment	223	208
Intangible assets	16	15
Regulatory assets	16	15
Regulatory liabilities	(8)	(4)
Debt issuance costs	1	1
Employee future benefits	(5)	(6)
Other	(3)	(3)
Net deferred income tax liability	240	226

As at December 31, 2022 and 2021, the Corporation has no non-capital losses carried forward.

Provision for Income Taxes

<i>(\$ millions)</i>	2022	2021
Current income tax expense	12	11
Deferred income tax expense	13	15
Regulatory adjustment (note 8)	(13)	(15)
Deferred income tax expense, net of regulatory adjustment	-	-
Income tax expense	12	11

Variation in Effective Income Tax Rate

Income taxes vary from the amount that would be computed by applying the Canadian federal and BC combined statutory income tax rate of 27.0 per cent (2021 – 27.0 per cent) to earnings before income taxes as shown in the following table for the years ended December 31:

	2022	2021
Combined statutory income tax rate	27.0%	27.0%
<i>(\$ millions)</i>		
Statutory income tax rate applied to earnings before income taxes	20	18
Items capitalized for accounting but expensed for income tax purposes	(3)	(3)
Difference between capital cost allowance and amounts expensed for accounting purposes	(8)	(8)
Difference between employee future benefits paid and amounts expensed for accounting purposes	(1)	-
Difference between regulatory accounting items and amounts claimed for tax purposes	4	4
Actual income tax expense	12	11
Effective income tax rate	16.1%	16.5%

FortisBC Inc.
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19. INCOME TAXES (continued)

Taxation years 2017 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2017 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits.

20. FINANCIAL INSTRUMENTS

The Corporation categorizes financial instruments into the three-level hierarchy based on inputs used to determine the fair value:

- Level 1: Fair value determined using unadjusted quoted prices in active markets;
- Level 2: Fair value determined using pricing inputs that are observable; and
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

Financial Instruments Not Carried At Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The Corporation uses the following methods and assumptions for estimating the fair value of financial instruments:

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under credit facilities on the Consolidated Balance Sheets of the Corporation approximate their fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.
- For long-term debt, the Corporation uses quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The use of different estimation methods and market assumptions may yield different estimated fair value amounts. The following table includes the carrying value, excluding unamortized debt issuance costs and including current and long-term portions, and estimated fair value of the Corporation's long-term debt as at December 31:

	Fair Value Hierarchy	2022		2021	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(\$ millions)					
Long-term debt	Level 2	885	813	785	979

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.

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21. CREDIT FACILITIES

As at December 31, 2022, the Corporation had a \$150 million operating credit facility in place, which matures in April 2027, and a \$10 million demand overdraft facility.

The weighted average interest rate on borrowings under the Corporation's operating credit facility at December 31, 2022, was approximately 4.36 per cent (December 31, 2021 – 0.14 per cent).

The following summary outlines the Corporation's credit facilities as at December 31:

<i>(\$ millions)</i>	2022	2021
Operating credit facility	150	150
Demand overdraft facility	10	10
Draws on operating credit facility	(63)	(115)
Draws on overdraft facility	(2)	(1)
Credit facilities available	95	44

22. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, its ultimate parent, Fortis, and other related companies under common control, including FEI and FortisBC Holdings Inc. ("FHI"). The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

<i>(\$ millions)</i>	2022	2021
Operating costs charged to FortisBC Pacific (a)	8	7
Operating costs charged to FEI (b)	7	6
Operating costs charged to FHI (c)	1	1
Total related party recoveries	16	14

(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.

(c) The Corporation charged FHI for management services and other labour.

Related Party Costs

The amounts charged by related parties under common control for the years ended December 31 were as follows:

<i>(\$ millions)</i>	2022	2021
Operating costs charged by FEI (a)	8	7
Operating costs charged by FHI (b)	5	5
Total related party costs	13	12

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

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

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22. RELATED PARTY TRANSACTIONS (continued)

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable and other current assets on the Consolidated Balance Sheets, and the amounts due to related parties, included in accounts payable and other current liabilities on the Consolidated Balance Sheets, were as follows as at December 31:

(\$ millions)	2022		2021	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FPHI	-	-	1	-
Fortis	-	-	1	-
FEI	-	-	-	(1)
FHI	-	(1)	-	(1)
Total (due to) due from related parties	-	(1)	2	(2)

23. COMMITMENTS

The following table sets forth the Corporation's estimated commitments due in the years indicated:

As at December 31, 2022	Total	Due within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due after 5 Years
(\$ millions)							
Power purchase obligations (a)	2,751	103	92	89	88	86	2,293
Finance lease obligations (note 12)	1,175	34	34	35	35	36	1,001
Long-term debt ¹ (note 11)	885	25	-	-	-	-	860
Interest obligations on long-term debt (note 11)	910	42	40	40	40	40	708
Other (b)	6	4	1	1	-	-	-
Total	5,727	208	167	165	163	162	4,862

¹ Excludes unamortized debt issuance costs.

- (a) In addition to the BPPA, which has been recognized as a finance lease obligation (note 12), the Corporation's power purchase obligations consist of the following:

Waneta Expansion Capacity Agreement ("WECA")

In 2010, FBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The WECA, which was accepted by the BCUC in May 2012, allows FBC to purchase capacity over 40 years, beginning April 1, 2015.

BC Hydro Power Purchase Agreement ("BCH PPA")

In 2013, FBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 Gigawatt hours per year of associated energy for a 20 year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014. The capacity and energy to be purchased under this agreement do not relate to a specific plant. The BCH PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative.

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23. COMMITMENTS (continued)

Capacity and Energy Purchase and Sale Agreement ("CEPSA")

In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex and for FBC to sell any surplus capacity to Powerex that may be available after FBC meets its load requirements. The CEPSA was accepted by the BCUC in April 2015 and became effective beginning May 2015. As at December 31, 2022, the total power purchase commitments outstanding under the CEPSA were approximately \$3 million through to the second quarter of 2023. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.

Brilliant Expansion Capacity and Energy Purchase Agreement

In 2017, FBC entered into an agreement to purchase capacity and energy from CPC, acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

- (b) Included in other commitments are operating leases, defined benefit pension plan funding obligations, and an asset retirement obligation.

In addition to the items in the table above, the Corporation has issued commitment letters to customers who may meet the criteria to obtain energy efficiency funding under the DSM Expenditures Plan approved by the BCUC. As at December 31, 2022, the Corporation had issued \$5 million (December 31, 2021 - \$6 million) of commitment letters to these customers.