FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months Ended March 31, 2020

May 5, 2020

The following FortisBC Energy Inc. ("FEI" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. Financial information for 2020 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Unaudited Condensed Consolidated Interim Financial Statements and notes thereto for the three months ended March 31, 2020, prepared in accordance with US GAAP and the Corporation's Annual Audited Consolidated Financial Statements and notes thereto together with the MD&A for the year ended December 31, 2019, with 2018 comparatives, prepared in accordance with US GAAP.

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

FORWARD-LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's ability to capture incremental deferral costs and unrecovered customer revenues in the Corporation's COVID-19 Customer Recovery Fund or the Corporation's existing regulatory mechanisms which were in place during previous regulatory frameworks and have been applied to continue under the Corporation's Multi-year Rate Plan application (the "MRP Application") effective 2020; the expected date of the British Columbia Utility Commission ("BCUC") 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 FHI and debenture issuances; the Corporation's estimated contractual obligations; the final investment decision and estimated costs associated with the pipeline expansion to the proposed Eagle Mountain Woodfibre Liquefied Natural Gas ("Woodfibre LNG") site; and the expectation that certain impacts of the Coronavirus Disease 2019 ("COVID-19") pandemic will be mitigated through the continued use of regulatory deferral mechanisms..

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of climate change impacts; absence of adverse weather conditions, 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 energy demand; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations; and absence of COVID-19 pandemic impacts.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to:

regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; climate change risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks related to Indigenous rights and engagement; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; COVID-19 pandemic risk; capital resources and liquidity risk; competitiveness and commodity price risk; counterparty credit risk; natural gas supply and weather related risks; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the "Business Risk Management" section of this MD&A and the Corporation's MD&A and AIF for the year ended December 31, 2019.

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

CORPORATE OVERVIEW

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,043,700 residential, commercial, industrial, and transportation customers in more than 135 communities. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial, and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

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

REGULATION

COVID-19 Customer Recovery Fund Deferral Account

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

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

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

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

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

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

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

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

Customer Rates and Deferral Mechanisms

Customer rates include both the delivery charge and the cost of natural gas. The cost of natural gas, consisting of the commodity, storage and transport costs, is passed through to customers without mark-up. 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. These deferral mechanisms decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on customer use rates.

Variances from regulated forecasts used to set rates for natural gas revenue are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings for the quarters ended March 31, 2020 and 2019. As part of the Performance Based Ratemaking Plan for the years 2014 to 2019 (“PBR”), the Corporation had a flow-through deferral account that captured variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flowed those variances through customer rates in the following year.

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

Multi-Year Rate Plan for 2020 to 2024

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

In November 2019, the BCUC approved a rate increase of 2.0 per cent over 2019 rates pursuant to the MRP, on an interim and refundable basis, effective January 1, 2020. Interim rates will remain in place pending a final determination on 2020 rates by the BCUC. When combined with a decrease to FEI’s midstream rates that was also approved in November 2019, residential rates decreased by 2.0 per cent effective January 1, 2020.

CONSOLIDATED RESULTS OF OPERATIONS

Quarters Ended March 31	2020	2019	Variance
Gas sales *(petajoules)*	**82**	83	(1)
($ millions)			
Revenue	**466**	485	(19)
Cost of natural gas	**160**	181	(21)
Operation and maintenance	**66**	66	-
Property and other taxes	**17**	17	-
Depreciation and amortization	**61**	60	1
Total expenses	**304**	324	(20)
Operating income	**162**	161	1
Add: Other income	**2**	3	(1)
Less: Finance charges	**36**	35	1
Earnings before income taxes	**128**	129	(1)
Income tax expense	**23**	30	(7)
Net earnings	**105**	99	6

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

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net earnings	**6**	Net earnings for the quarter ended March 31, 2020 were $105 million compared to $99 million for the same period in 2019 primarily due to higher investment in regulated assets. Net earnings for the quarter ended March 31, 2020 were not significantly impacted by the COVID-19 pandemic. Both 2020 and 2019 net earnings are based on allowed return on equity of 8.75 per cent and a deemed equity component of capital structure of 38.5 per cent.
Revenue	**(19)**	The decrease in total revenue was primarily due to a lower cost of natural gas recovered from customers, as approved by the BCUC, a decrease in the amortization of certain revenue related regulatory liabilities that are recognized in revenues partially offset by an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets. Gas sales volumes were comparable to the prior quarter as the higher consumption by commercial and industrial customers was generally offset by lower consumption by residential customers due to warmer weather during the first quarter of 2020.
Cost of natural gas	**(21)**	The decrease in the cost of natural gas was primarily due to: • a lower storage and transport cost, approved by the BCUC, of $1.087 per gigajoule for the first quarter of 2020, as compared to $1.485 per gigajoule for the same quarter in 2019, and • an increase in the refund of the MCRA gas storage and transport cost regulatory liability during the quarter, partially offset by • an increase in total consumption of gas by those customers receiving bundled natural gas services from FEI, which includes both delivery service and the supply of gas commodity, in the first quarter of 2020. Customers that purchase bundled services from FEI require the Corporation to not only provide delivery service, but also provide the gas commodity, which entails managing the commodity portfolio, including the costs to procure, store and transport the gas. While total sales volumes were comparable between quarters, the volumes provided to customers under bundled services were higher in the first quarter of 2020 as compared to the volumes provided to customers receiving only delivery service in the first quarter of 2019, which required FEI to incur a higher cost of natural gas.

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Income tax expense	**(7)**	The decrease in income tax expense was primarily due to higher deductible temporary difference associated with property, plant and equipment due to the June 2019 enactment of the new enhanced capital cost allowance rules, and lower taxable temporary differences associated with certain regulatory deferrals.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2018 through March 31, 2020. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Revenue**	**Net Earnings (Loss)** [1]
($ millions)		
March 31, 2020	466	105
December 31, 2019	427	82
September 30, 2019	183	(15)
June 30, 2019	235	16
March 31, 2019	485	99
December 31, 2018	371	80
September 30, 2018	161	(10)
June 30, 2018	227	18

[1] Net earnings (loss) attributable to controlling interest.

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

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

March 2020/2019 – Net earnings were higher primarily due to higher investment in regulated assets. Net earnings for the quarter ended March 31, 2020 were not significantly impacted by the COVID-19 pandemic.

December 2019/2018 – Net earnings were higher due to higher investment in regulated assets and lower operating costs excluded for rate-setting purposes, partially offset by a $3 million lower income tax benefit from the TLUP and higher regulated operation and maintenance expenses in part due to the timing of incurring such costs throughout the year. The lower income tax benefit from the TLUP was a result of a lower interest rate than a similar TLUP in place in 2018, as well as the Corporation unwinding the TLUP earlier in the fourth quarter of 2019 compared to 2018.

September 2019/2018 – Net loss was higher primarily due to a $3 million lower income tax benefit from the TLUP and higher operation and maintenance expenses for the quarter, net of the regulated Earnings Sharing Mechanism, as compared to operating costs allowed in rates under the PBR formula, in part due to the timing of incurring such costs throughout the year, partially offset by higher investment in regulated assets.

June 2019/2018 – Net earnings were lower primarily due to a $6 million lower income tax benefit from the TLUP, partially offset by higher operation and maintenance expense savings for the quarter, net of the regulated Earnings Sharing Mechanism, as compared to operating costs allowed in rates under the PBR formula, primarily due to the timing of incurring such costs throughout the year, and higher investment in regulated assets. The lower income tax benefit from the TLUP was a result of the Corporation having a TLUP in place in 2018 with a higher interest rate, effective earlier in 2018 compared to the TLUP in place in 2019.

CONSOLIDATED FINANCIAL POSITION

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

Balance Sheet Account	**Increase (Decrease)** *($ millions)*	**Explanation**
Cash	**17**	The increase in cash was primarily due to an equity injection from the Corporation's parent company, FHI, the receipt of pre-funding contributions for development expenditures, and receipt of the transfer of $16 million of tax instalment balance from ACGS, all of which were received at the end of March 2020.
Accounts receivable, net	**(29)**	The decrease was primarily due to a decrease in income taxes receivable due to the expected taxes payable on year-to-date earnings and the transfer of $16 million of instalment balance from prior year to ACGS, and lower gas cost mitigation receivables, partially offset by higher tariff-based trade receivables resulting from the seasonality of sales. Additionally, approximately $2 million was recognized as an additional allowance against trade receivables associated with the COVID-19 Customer Recovery Fund deferral account, with the offset recognized as an addition to regulatory assets.
Inventories	**(19)**	The decrease was primarily due to the seasonal drawdown of natural gas in storage during the winter months, partially offset by an increase in the weighted average cost of gas in storage.
Property, plant and equipment, net	**30**	The increase was primarily due to capital expenditures of $118 million during the quarter, of which $48 million was previously accrued as at December 31, 2019, including the Lower Mainland Intermediate Pressure System Upgrade Project ("LMIPSU") construction holdbacks; partially offset by $43 million of depreciation expense, excluding net salvage provision; $4 million of costs of removal incurred, the offset of which has been recognized in regulatory liabilities, and $2 million of contributions in aid of construction.
Accounts payable and other current liabilities	**(93)**	The decrease was primarily due to lower gas cost payables, as a result of lower cost of gas purchased, lower capital accruals and the seasonal decrease in credit balances related to customer payment plan arrangements.
Common shares	**40**	The increase is due to a $40 million FEI equity issuance during the first quarter of 2020. The proceeds were used to repay credit facilities in support of the equity component of FEI's capital expenditure program.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Quarters Ended March 31	2020	2019	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**168**	20	148
Investing activities	**(131)**	(77)	(54)
Financing activities	**(20)**	64	(84)
Net change in cash	**17**	7	10

Operating Activities

Cash provided by operating activities was $148 million higher compared to the same period in 2019 primarily due to:

- a decrease in working capital for the first quarter of 2019 in the amount of $118 million primarily related to higher customer receivables as a result of colder weather in the first quarter of 2019 and $40 million cash collateral paid in 2019 due to an increased fair market value of natural gas derivatives, and
- changes in regulatory assets and liabilities during the first quarter of 2019 arising from the variance between midstream and commodity costs incurred and collected in customer rates, which were recognized in the MCRA and CCRA deferral accounts, respectively, and
- an increase in net earnings.

Investing Activities

Cash used for investing activities was $54 million higher in 2020 compared to the same period in 2019. This was primarily due to higher capital expenditures that included $48 million of changes in accrued capital expenditures, including the release of LMIPSU construction holdback payables.

Financing Activities

Cash used in financing activities were $20 million compared to the same period in 2019 when cash provided by financing activities was $64 million. The change in financing activities was primarily driven by a greater amount of cash provided from operating activities in the first quarter of 2020 to finance investing activities which permitted repayments on the credit facility, whereas in the first quarter of 2019, the lower cash flows from operating activities required the Corporation to borrow $110 million from its credit facility. Additionally, during the first quarter of 2020, there was a $40 million issuance of common shares to finance the equity portion of the Corporation's capital expenditure program, for which there was no issuance in the comparable period.

During the quarter ended March 31, 2020, FEI paid common share dividends of $53 million (2019 - $50 million) to its parent company, FHI.

Contractual Obligations

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

Credit Ratings

There have been no changes to the Corporation's credit ratings from those disclosed in the MD&A for the year ended December 31, 2019, which are summarized in the table below:

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

Cash Flow Requirements and Liquidity

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

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and/or dividend payments. Cash flow is also required to fund capital expenditure programs; pre-development capital costs; regulated deferral accounts, including the COVID-19 Customer Recovery Fund and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in Demand Side Management and natural gas for transportation programs under the Greenhouse Gas Reductions Regulations. All of these funding requirements are expected to be financed from a combination of borrowings under the credit facility, equity injections from FHI, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 38.5 per cent equity and 61.5 per cent debt.

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

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

Credit Facilities and Debentures

Credit Facilities

As at March 31, 2020, the Corporation had a $700 million syndicated credit facility available which matures in August 2024, and a $55 million uncommitted letter of credit facility which matures in March 2022. The uncommitted letter of credit facility was approved by the BCUC in February 2020 and executed in March 2020, and provides FEI with additional liquidity to issue letters of credit for general corporate purposes. Including both facilities, the total credit facilities for FEI are $755 million as compared to the $700 million as at December 31, 2019.

The following summary outlines the Corporation's credit facilities:

($ millions)	**March 31, 2020**	December 31, 2019
Credit facility	**700**	700
Letter of credit facility	**55**	-
Draws on credit facility	**(132)**	(138)
Letters of credit outstanding	**(47)**	(47)
Credit facilities available	**576**	515

Debentures

On April 9, 2020, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture ("MTN Debentures") Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. The Corporation may, from time to time during the 25-month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to $800 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

As at March 31, 2020, $800 million remains available under the MTN Debenture Program.

PROJECTED CAPITAL EXPENDITURES AND OTHER INVESTMENTS

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

The 2020 projected capital expenditures are approximately $480 million, inclusive of allowance for funds used during construction and excluding customer contributions in aid of construction, and are necessary to provide service, public and employee safety, and reliability of supply of natural gas to the Corporation's customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return.

Included in these 2020 projected capital expenditures are growth capital and the current year costs of construction for the Inland Gas Upgrade project and LMIPSU project, which were described in the MD&A for the year ended December 31, 2019. The decrease in the 2020 projected capital expenditures compared to the $510 million projected in the MD&A for the year ended December 31, 2019 is primarily due to cost savings expected to be obtained in the LMIPSU project. The impact of the COVID-19 pandemic on the shifting of capital expenditures into future years is uncertain at the time of filing this MD&A.

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

Other Major Capital Projects

LNG Infrastructure

The Corporation continues to pursue additional LNG infrastructure investment opportunities in BC, including a gas line expansion to the proposed Woodfibre LNG site near Squamish, BC, and a further expansion of Tilbury that would help position BC as a vital domestic and international LNG provider to lower global greenhouse gas emissions. The BC Provincial government issued an Order of the Lieutenant Governor in Council ("OIC") that granted FEI exemptions from the requirement to seek BCUC CPCN approvals for the pipeline expansion to the LNG site and certain further expansions at the Tilbury site, subject to certain conditions.

In February 2020, in conjunction with FEI's parent company FHI, an initial project description was filed with regulators to begin the federal impact assessment and provincial environmental assessment to further expand the Tilbury site. This further expansion considers the potential increase to storage capacity and strengthening the resiliency of FEI's gas system, as well as enabling additional liquefaction for LNG for marine bunkering.

The anticipated capital expenditures, net of the forecasted customer contributions, of FEI's potential gas line expansion are $350 million, conditional on Woodfibre LNG proceeding with its LNG export facility. The current estimate of FEI's investment in the project may be updated for final scoping, detailed construction estimates and scheduling, and final determination of the customer contributions.

In November 2016, Woodfibre LNG's parent company announced they had authorized the funds necessary to proceed with the project. FEI and Woodfibre LNG have entered into a pre-execution work agreement that establishes the funding requirements to be provided by Woodfibre LNG for FEI to incur ongoing project feasibility and development costs prior to construction. In July 2019, Woodfibre LNG received a permit from the BC Oil and Gas Commission to construct, operate, and maintain an LNG facility, one of the key permits for advancement of the project. FEI has also received environmental assessment approvals for the gas line expansion from the BC Environmental Assessment Office and the Squamish Indigenous peoples.

Woodfibre LNG holds an export license from the Canada Energy Regulator (formerly, National Energy Board) and has received environmental assessment approvals from the Squamish Indigenous peoples, the BC Environmental Assessment Office and the Canadian Environmental Assessment Agency. In March 2020, Woodfibre LNG requested an extension to their BC Environmental Assessment Certificate due to interruptions of production and supply chain disruptions resulting, in part from the global economic impacts of the COVID-19 pandemic.

FEI's proposed gas line expansion remains contingent on Woodfibre LNG making a final decision to proceed with construction of its LNG export facility. At this time, should the project proceed, the earliest construction date expected is mid-2021.

RELATED PARTY TRANSACTIONS

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

Related Party Recoveries

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

	Quarters Ended March 31	
($ millions)	**2020**	2019
Operation and maintenance expense charged to FBC (a)	**1**	1
Total related party recoveries	**1**	1

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

Related Party Costs

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

	Quarters Ended March 31	
($ millions)	**2020**	2019
Operation and maintenance expense charged by FBC (a)	**1**	2
Operation and maintenance expense charged by FHI (b)	**3**	3
Gas storage and purchases charged by ACGS (c)	**7**	6
Total related party costs	**11**	11

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

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

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

Balance Sheet Amounts

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

	March 31, 2020		December 31, 2019	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**1**	**-**	1	-
ACGS	**-**	**(2)**	-	(2)
Total due from (due to) related parties	**1**	**(2)**	1	(2)

During the first quarter of 2020, $16 million was transferred from FEI's tax instalment account to ACGS' tax instalment account at the Canada Revenue Agency ("CRA"). The transfer resulted in a decrease to FEI's income tax receivable balance and a decrease to ACGS' income taxes payable balance as permitted by the CRA for associated entities.

FINANCIAL INSTRUMENTS

Derivative Instruments

The were no material changes with respect to the nature and purpose, methodologies for fair value determination, and carrying values of the Corporation's natural gas contract derivatives from that disclosed in the MD&A for the year ended December 31, 2019. Additional details are provided in the notes to the Condensed Consolidated Interim Financial Statements. The effects of the COVID-19 pandemic, as further described in the Business Risk Management section of this MD&A, did not significantly affect the determination of the fair value of the Corporation's financial instruments as at March 31, 2020.

As at March 31, 2020, natural gas contract derivatives were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

($ millions)	**March 31, 2020**	December 31, 2019
Unrealized net gain recorded to current regulatory liabilities	**1**	1

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

Financial Instruments Not Measured At Fair Value

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

		March 31, 2020		December 31, 2019	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**2,795**	**3,352**	2,795	3,527

[1] Carrying value excludes unamortized debt issuance costs.

NEW ACCOUNTING POLICIES

Standard	**Effective Date**	**Description**	**Effect on FEI**
Measurement of Credit Losses on Financial Instruments	January 1, 2020	Effective January 1, 2020, the Corporation adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance.	The Corporation records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The allowance for doubtful accounts that is estimated is based on historical experience, current conditions, reasonable and supportable economic forecasts and accounts receivable aging. It is evaluated based on historical and expected credit loss patterns, reasonable and supportable forecasts and customer type. The Corporation recognized an additional $2 million adjustment to the allowance against trade receivables as a result of additional information around current conditions obtained after March 31, 2020. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

CRITICAL ACCOUNTING ESTIMATES

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

Assessment for Impairment of Goodwill

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

Employee Future Benefits

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

Revenue Recognition

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

OTHER DEVELOPMENTS

Collective Agreements

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on March 31, 2019. The IBEW represents employees in specified occupations in the areas of transmission and distribution. Mediation was scheduled to begin in April 2020, however, as a result of the COVID-19 pandemic has been postponed. Operations of the Corporation have not been impacted to date.

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

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's MD&A for the year ended December 31, 2019, other than as noted below:

COVID-19 Pandemic

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

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

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

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

Impact of Changes in Economic Conditions

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

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

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 341,154,514 common shares, all of which are owned by FHI, a directly wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

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