FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the Three and Six Months Ended June 30, 2019

August 1, 2019

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 2019 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Unaudited Condensed Consolidated Interim Financial Statements and notes thereto for the three and six months ended June 30, 2019, prepared in accordance with US GAAP and the Corporation's Annual Audited Consolidated Financial Statements and notes thereto together with the MD&A for the year ended December 31, 2018, with 2017 comparatives, prepared in accordance with US GAAP.

In this MD&A, 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 estimated costs for the current and future phases of the Tilbury Liquefied Natural Gas Facility Expansion Project ("Tilbury Expansion Project"), the Lower Mainland Intermediate Pressure System Upgrade Project ("LMIPSU Project"), the Inland Gas Upgrades Project ("IGU") and their associated in-service dates; the expected date of the British Columbia Utility Commission's decision in response to the Corporation's Multi-year Rate Plan application (the "MRP Application"); the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI and debenture issuances; the Corporation's estimated contractual obligations; and the final investment decision, in-service date and estimated costs associated with the pipeline expansion to the proposed Eagle Mountain Woodfibre Liquefied Natural Gas ("Woodfibre LNG") site; and the effect of the Westcoast Energy Inc. ("Westcoast") natural gas transmission pipeline incident.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; no adverse effect of the Indigenous peoples' settlement process on the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain a skilled workforce; absence of information technology infrastructure failure; absence of cyber-security failure; continued 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; and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

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; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving Indigenous peoples; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competitiveness and commodity price risk; 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 Corporation's MD&A and AIF for the year ended December 31, 2018.

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

CORPORATE OVERVIEW

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,032,600 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

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 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 in either 2019 or 2018. As part of FEI's Multi-year Performance Based Ratemaking Plan for the years 2014 to 2019 ("PBR Application"), the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

The Midstream Cost Reconciliation Account ("MCRA") deferral mechanism captured the increased cost of procuring additional gas on the open marketplace, which occurred primarily during the fourth quarter of 2018, to replace the gas that was not received due to an incident that took place on October 9, 2018. The incident affected Westcoast's natural gas transmission pipeline, near Prince George, BC, which provides supply of natural gas to FEI for distribution to its customers in various locations across BC. Westcoast is a wholly-owned subsidiary of Enbridge Inc. FEI declared a force majeure under several of its rate schedules. No FEI infrastructure was damaged as a result of this incident. FEI recovers the costs captured in the MCRA deferral account through customer rates. Insurance recoveries, if any, associated with the incident would reduce the amount recoverable from customers.

Performance Based Ratemaking Plan for 2014 to 2019

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

In the first quarter of 2019, the BCUC issued its decision on FEI's 2019 delivery rates. The decision resulted in a 2019 average rate base of approximately $4,497 million, excluding the rate base of approximately $12 million for Fort Nelson (2018 - $4,370 million, excluding the rate base of approximately $11 million for Fort Nelson) and an increase to the delivery rate of 1.1 per cent effective January 1, 2019. Also in the first quarter of 2019, the BCUC issued its decision approving an increase to FEI's midstream rates to reflect both the recovery of increased costs of procuring additional gas on the open market to replace the gas that was not received through the Westcoast natural gas transmission pipeline during 2018, as well as the forecasted increase in midstream costs during the subsequent twelve months. Combined with the 1.1 per cent delivery rate increase, the pass through of these costs to customers resulted in an approximate 9.0 per cent increase to residential rates on January 1, 2019.

Multi-Year Rate Plan for 2020 to 2024

In March 2019, FEI filed its MRP Application, an application with the BCUC requesting approval of a Multi-year Rate Plan for the years 2020 to 2024. The MRP Application proposes a rate-setting framework that includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation, a 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, 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 rates and a number of service quality indicators designed to ensure the Corporation maintains service levels. The regulatory process to review this application will continue through 2019, with a decision expected in the first half of 2020.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year to Date		
Periods Ended June 30	**2019**	2018	Variance	**2019**	2018	Variance
Gas sales (petajoules)	**40**	39	1	**123**	119	4
($ millions)						
Revenue	**235**	227	8	**720**	655	65
Cost of natural gas	**63**	51	12	**244**	185	59
Operation and maintenance	**61**	59	2	**127**	117	10
Property and other taxes	**17**	17	-	**34**	34	-
Depreciation and amortization	**60**	56	4	**120**	112	8
Total expenses	**201**	183	18	**525**	448	77
Operating income	**34**	44	(10)	**195**	207	(12)
Add: Other income	**27**	45	(18)	**30**	61	(31)
Less: Finance charges	**57**	78	(21)	**92**	126	(34)
Earnings before income taxes	**4**	11	(7)	**133**	142	(9)
Income tax (recovery) expense	**(12)**	(7)	(5)	**18**	23	(5)
Net earnings	**16**	18	(2)	**115**	119	(4)

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

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**(2)**	Net earnings for the quarter ended June 30, 2019 were $16 million compared to $18 million for the same period in 2018. The decrease was primarily due to: • a $6 million lower income tax benefit as a result of the Corporation having a tax loss utilization plan ("TLUP") effective March 1, 2018, compared to the TLUP in place in 2019, which was effective April 24, 2019. The 2018 TLUP also had a higher interest rate for the quarter compared to the 2019 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. Both 2019 and 2018 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.

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Revenue	**8**	The increase in total revenue was primarily due to: • a higher cost of natural gas recovered from customers, as approved by the BCUC, • a decrease in the refund of the MCRA gas storage and transport cost regulatory liability, and • an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets, partially offset by • an increase in current year flow-through deferral amounts to be refunded to customers in future rates. Gas sales volumes were slightly higher but comparable to the second quarter of 2018. The variance between revenue associated with actual average consumption and revenue forecasted for rate-setting purposes is captured either in the Revenue Stabilization Adjustment Mechanism ("RSAM") deferral account or the flow-through deferral account, for which the income statement offsets are recognized in alternative revenue. The higher consumption compared to what is approved in rates resulted in increased revenue from contracts with customers, but was offset by an equal alternative revenue amount resulting in no impact on total revenue.
Cost of natural gas	**12**	The increase in the cost of natural gas was primarily due to: • a higher storage and transport cost, approved by the BCUC, of $1.485 per gigajoule for the second quarter of 2019, as compared to $1.064 per gigajoule for the same quarter in 2018, and • a decrease in the refund of the MCRA gas storage and transport cost regulatory liability, which decreases the cost of natural gas, during the quarter.
Operation and maintenance	**2**	The increase in operation and maintenance expense was primarily due to higher labour costs and higher electricity costs to operate the Tilbury LNG facility, partially offset by the timing of costs in the second quarter of 2019 as compared to the same period in 2018.
Depreciation and amortization	**4**	The increase was primarily due to a higher depreciable asset base compared to the prior year, including depreciation on the Tilbury Expansion Project and the Vancouver portion of the LMIPSU Project, both beginning January 1, 2019, partially offset by lower amortization of regulatory assets.
Other income	**(18)**	Other income primarily consists of dividend income from TLUP structures, the equity component of allowance for funds used during construction ("AFUDC"), and the non-service cost component of pension and other post-employment benefits, which was recognized as a credit to other income. The decrease in other income was primarily due to lower dividend income due to FEI having a TLUP in place for the entire second quarter in 2018 at a higher dividend rate, compared to a similar TLUP implemented part way through the second quarter of 2019 at a lower dividend rate, partially offset by an increase in the non-service cost component of pension and other post-employment benefits and a higher equity component of AFUDC in 2019 associated with the construction of the LMIPSU Project. As part of the TLUP, the Corporation received dividend income from FHI relating to a $2,500 million (2018 - $2,500 million) investment in preferred shares.
Finance charges	**(21)**	The decrease in finance charges was primarily due to FEI having a TLUP in place for the entire second quarter in 2018 at a higher interest rate, compared to a similar TLUP implemented part way through the second quarter of 2019 at a lower interest rate, partially offset by higher interest from a higher level of debt used to finance the increased investment in regulated assets, and the issuance of long-term debentures in December 2018, which were used to repay credit facilities carrying lower interest rates.
Income taxes	**(5)**	The decrease in income taxes for the three months ended June 30, 2019 was primarily due to higher deductible temporary differences associated with property, plant, and equipment primarily due to the June 2019 enactment of the new enhanced Capital Cost Allowance ("CCA") rules, and lower earnings before tax, partially offset by a lower TLUP tax recovery.

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

Year to Date		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**(4)**	Net earnings for the six months ended June 30, 2019 were $115 million compared to $119 million for the same period in 2018. The decrease was primarily due to: • a $10 million lower income tax benefit as a result of the Corporation having a TLUP in place effective March 1, 2018, compared to the TLUP in place in 2019, which was effective April 24, 2019. The 2018 TLUP also had a higher interest rate compared to the 2019 TLUP, partially offset by • higher investment in regulated assets.
Revenues	**65**	The higher total revenues for the six months ended June 30, 2019 were primarily due to: • a higher cost of natural gas recovered from customers, as approved by the BCUC, • a decrease in the refund of the MCRA gas storage and transport cost regulatory liability, and • an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets. Gas sales volumes were higher year to date primarily due to higher average consumption as a result of colder weather. The quarterly revenue explanation explains the effect of forecasted growth in customers and throughput, as well as regulatory deferral mechanisms on revenues for 2019.
Cost of natural gas	**59**	The increase in the cost of natural gas for the six months ended June 30, 2019 was primarily due to the same reasons as identified in the quarter, in addition to higher gas sales consumption in 2019 compared to the same period in 2018.
Operation and maintenance	**10**	The higher operating and maintenance expense for the six months ended June 30, 2019 was primarily due to the timing of incurring these costs in 2019 as compared to the same period in 2018, higher labour and contracting costs, and higher electricity costs to operate the Tilbury LNG facility.
Depreciation and amortization	**8**	The increase in depreciation and amortization for the six months ended June 30, 2019 was primarily due to the same reasons as identified in the quarter.
Other income	**(31)**	The decrease in other income for the six months ended June 30, 2019 was primarily due to the same reasons as identified in the quarter.
Finance charges	**(34)**	The decrease in finance charges for the six months ended June 30, 2019 was primarily due to the same reason identified in the quarter.
Income taxes	**(5)**	The decrease in income taxes for the six months ended June 30, 2019 was primarily due to higher deductible temporary differences associated with property, plant, and equipment resulting from the June 2019 enactment of the new enhanced CCA rules and and higher investment in regulated assets, lower taxable temporary differences arising from regulatory deferral accounts, and lower earnings before tax, partially offset by a lower TLUP tax recovery.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2017 through June 30, 2019. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	Revenue	Net Earnings (Loss)[1]
($ millions)		
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
March 31, 2018	428	101
December 31, 2017	366	73
September 30, 2017	156	(4)

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

Due to the seasonal nature of the Corporation's natural gas transmission and distribution operations and its impact on 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.

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 March 1, 2018, compared to the TLUP in place in 2019, which was effective April 24, 2019.

March 2019/2018 – Net earnings were lower primarily due to lower income tax benefit as a result of the Corporation having a TLUP in place in 2018, effective March 1, 2019, compared to no TLUP implemented in the first quarter of 2019 and lower 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, partially offset by higher investment in regulated assets.

December 2018/2017 – Net earnings were higher primarily due to higher investment in regulated assets and higher operation and maintenance expense savings, 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.

September 2018/2017 – Net loss was higher primarily due to lower operating and maintenance expense savings, 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 a non-recurring benefits refund received during the third quarter of 2017 for which there was no comparable amount received in the same period of 2018, and lower interest savings, partially offset by higher investment in regulated assets.

CONSOLIDATED FINANCIAL POSITION

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

Balance Sheet Account	**Increase (Decrease)** ($ millions)	**Explanation**
Accounts receivable	**(72)**	The decrease was primarily due to lower tarrif-based trade receivables, as a result of seasonality of sales, and lower gas cost mitigation receivables, partially offset by higher receivables related to customer payment plan arrangements caused by the colder weather in Q1 2019.
Regulatory assets (current and long-term)	**55**	The increase was primarily due to: • higher regulatory asset which is an offset for the deferred income tax liability, • higher MCRA regulatory asset, which moved from a regulatory liability position at December 31, 2018 to a regulatory asset position at June 30, 2019 primarily due to higher natural gas midstream costs and payments made by FEI during the first quarter of 2019 to secure long-term natural gas pipeline capacity, • higher RSAM deferral balance, which captures gas throughput related variances in delivery revenue for residential and commercial customers, and • increased expenditures on Demand Side Management ("DSM") expenditures and Greenhouse Gas Reductions Regulation ("GGRR") programs, partially offset by • the change in the fair market value of natural gas derivatives, which moved from an unrealized loss of $9 million recorded as a current regulatory asset at December 31, 2018 to an unrealized gain of $11 million recorded as a current regulatory liability at June 30, 2019.
Property, plant and equipment, net	**92**	The increase was primarily due to capital expenditures of $167 million incurred during the six months ended June 30 2019, which included sustainment and growth capital as well as major project expenditures discussed further under "Projected Capital Expenditures", $20 million in changes in accrued capital expenditures and $2 million in AFUDC, partially offset by: • depreciation expense, excluding net salvage provision, of $86 million, • costs of removal of $8 million incurred, the offset of which has been recognized in regulatory liabilities, and • contributions in aid of construction of $3 million.
Credit facility	**(29)**	The decrease was primarily a result of net repayment of the credit facility with seasonal cash flows provided by operations and proceeds received from the May 2019 share issuance.
Accounts payable and other current liabilities	**(114)**	The decrease was primarily due to: • lower gas cost payables as a result of lower cost of gas purchased, • seasonal decrease in credit balances related to customer payment plan arrangements, • the change in the fair market value of natural gas derivatives, described in the above variance for regulatory assets, and • a lower carbon tax accrual as a result of payments made during the second quarter of 2019, partially offset by • higher property tax payable, and • increased accruals for capital expenditures.
Regulatory liabilities (current and long-term)	**21**	The increase was primarily due to an unrealized gain on natural gas derivatives of $11 million recorded as a current regulatory liability at June 30, 2019 for which there was no comparative balance at December 31, 2018 and higher net salvage provision.
Deferred income taxes	**28**	The increase was primarily due to higher deductible temporary differences associated with property, plant, and equipment that includes $6 million resulting from the June 2019 enactment of new enhanced CCA rules, as well as higher deductible temporary differences in regulatory deferral asset

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
		accounts. The offset has been recognized in regulatory assets since the related income tax amounts are expected to be recovered from customers in future rates.
Common shares	**140**	The increase is due to a $140 million FEI equity issuance in the second quarter of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Six Months Ended June 30	**2019**	2018	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**185**	314	(129)
Investing activities	**(193)**	(200)	7
Financing activities	**13**	(110)	123
Net change in cash	**5**	4	1

Operating Activities

Cash provided by operating activities was $129 million lower compared to 2018 primarily due to a decrease of $138 million related to changes in working capital, largely related to the changes in accounts payable for gas costs. The significant change in gas cost payables period over period was primarily due to FEI entering into gas purchase agreements prior to the end of 2018 and during the first quarter of 2019 at higher prices due to limited supply resulting from the Westcoast natural gas transmission pipeline incident.

The majority of the $40 million cash collateral paid at March 31, 2019 was returned during the second quarter as a result of the fair market value of natural gas derivatives decreasing subsequent to March 31, 2019.

Investing Activities

Cash used for investing activities was $7 million lower in 2019 compared to the same period in 2018 primarily due to lower capital expenditures, partially offset by changes in other assets and liabilities due to higher investment in DSM expenditures and GGRR programs.

Financing Activities

Cash provided by financing activities were $13 million, an increase of $123 million compared to cash used for financing activities of $110 million in 2018. The change in financing cash flows was primarily driven by a $140 million issuance of common shares in the second quarter of 2019 as compared to a $40 million issuance of common shares in the second quarter of 2018, as well as lower net repayments of credit facilities.

During the three and six months ended June 30, 2019, FEI paid a common share dividend of $50 million (2018 - $48 million) and $100 million (2018 - $95 million), respectively, to its parent company, FHI.

Contractual Obligations

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2018 with the exception of the following:

As at June 30, 2019	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)							
Gas purchase obligations (a)	**334**	**-**	**8**	**8**	**8**	**8**	**302**

(a) During the first quarter of 2019, FEI entered into two, separate agreements to purchase additional Winter Firm Service pipeline capacity on the Westcoast Pipeline for a 42-year term, beginning in the fourth quarter of 2020. Both agreements were accepted by the BCUC in February 2019.

Credit Ratings

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

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

Projected Capital Expenditures

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

The 2019 projected capital expenditures are approximately $498 million, inclusive of AFUDC and excluding customer contributions in aid of construction, and are necessary to provide service, public and employee safety, and reliability of supply of 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 the 2019 projected capital expenditures are the current year costs of construction for the IGU and the LMIPSU projects. FEI's disclosure around its major capital projects has not changed significantly from those disclosed in the MD&A for the year ended December 31, 2018 with the exception of the following updates.

LMIPSU Project

In December 2014, the Corporation filed a CPCN application to replace certain sections of intermediate pressure gas line segments within the Greater Vancouver area. In October 2015, the BCUC approved the CPCN substantially as filed, which included an estimate of the project costs of approximately $250 million. In the course of its project development activities, FEI conducted further detailed engineering work and evaluated construction bids and other costs which resulted in a revised cost estimate of approximately $500 million. This estimate was provided to the BCUC during the first quarter of 2018 in a compliance filing for their information. The Vancouver segment of the project was completed and gasified in December 2018. Construction of the remaining segments resumed in 2019. The Burnaby segment of the project is expected to be substantially completed by early September, and the Coquitlam station and Coquitlam pipeline segment by end of the year. A short segment in South Vancouver will be replaced in 2020 as planned. After the project is complete and in service, the final project costs remain subject to the BCUC's review process.

Other Major Capital Projects

Beyond 2019, the Corporation has received BCUC or Order in Council ("OIC") approval for further major capital projects discussed below.

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. The 2013 OIC as amended, granted FEI exemptions from the requirement to seek BCUC CPCN approvals for the pipeline expansion to the Woodfibre LNG site and certain further expansions at the Tilbury site, subject to certain conditions. In July 2019, Woodfibre LNG Limited received a permit from the BC Oil and Gas Commission, one of the key permits for construction and operation of the project.

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. During the fourth quarter of 2018, FEI and Woodfibre LNG Limited entered into a pre-execution work agreement that establishes the funding requirements to be provided by Woodfibre LNG Limited for FEI to incur ongoing project feasibility and development costs. During the six months ended June 30, 2019, FEI incurred approximately $12 million in development expenditures for the project and received $5 million of cash contributions. As at June 30, 2019, the total cash contributions paid by Woodfibre LNG Limited to FEI that exceed the development expenditures incurred by FEI since 2018, amount to a $4 million current liability.

FEI's proposed gas line expansion remains contingent on Woodfibre LNG Limited making a final decision as to whether to proceed with construction of its LNG export facility. At this time, should the project proceed, it is not expected to be in service before 2023.

Credit Facility and Debentures

Credit Facility

As at June 30, 2019, the Corporation had a $700 million syndicated credit facility available which matures in August 2023.

The following summary outlines the Corporation's credit facility:

($ millions)	**June 30, 2019**	December 31, 2018
Credit facility	**700**	700
Draws on credit facility	**(170)**	(199)
Letters of credit outstanding	**(46)**	(48)
Credit facility available	**484**	453

Debentures

On October 20, 2017, 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 $650 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

As at June 30, 2019, $275 million remains available under the MTN Debenture Program.

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:

	Three months ended June 30		**Six months ended June 30**	
($ millions)	**2019**	2018	**2019**	2018
Operation and maintenance expense charged to FBC (a)	**2**	1	**3**	2
Operation and maintenance expense charged to FHI (b)	**-**	1	**-**	1
Other income received from FHI (c)	**23**	44	**23**	59
Total related party recoveries	**25**	46	**26**	62

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

(b) The Corporation charged FHI for management services, labour and materials.

(c) As part of a TLUP implemented in the second quarter of 2019, the Corporation received dividend income from FHI relating to a $2,500 million (2018 - $2,500 million) investment in preferred shares.

Related Party Costs

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

($ millions)	Three months ended June 30 2019	2018	Six months ended June 30 2019	2018
Operation and maintenance expense charged by FBC (a)	**1**	2	**3**	4
Operation and maintenance expense charged by FHI (b)	**4**	3	**7**	6
Finance charges paid to FHI (c)	**23**	44	**23**	59
Gas storage and purchases charged by ACGS (d)	**6**	6	**12**	13
Total related party costs	**34**	55	**45**	82

(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) As part of a TLUP implemented in the second quarter of 2019, the Corporation paid FHI interest on $2,500 million (2018 - $2,500) of intercompany subordinated debt.

(d) 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:

	June 30, 2019		December 31, 2018	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**-**	**-**	-	(2)
ACGS	**-**	**(1)**	-	(2)
Total due to related parties	**-**	**(1)**	-	(4)

FINANCIAL INSTRUMENTS

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Corporation's assets and liabilities accounted for at fair value on a recurring basis, all of which are Level 2 of the fair value hierarchy:

($ millions)	**June 30, 2019**	December 31, 2018
Assets		
Current		
Natural gas contracts subject to regulatory deferral [1]	**12**	5
Long-term		
Natural gas contracts subject to regulatory deferral [1]	**6**	9
Total assets	**18**	14
Liabilities		
Current		
Natural gas contracts subject to regulatory deferral [1]	**(5)**	(22)
Long-term		
Natural gas contracts subject to regulatory deferral [1]	**(2)**	(1)
Total liabilities	**(7)**	(23)
Total assets (liabilities), net	**11**	(9)

[1] Derivative contracts that are "in the money" are included in accounts receivable or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

The Corporation has elected gross presentation for its derivative contracts under master netting agreements, which applies only to its natural gas derivatives. The table below presents the potential offset of counterparty netting and cash collateral:

		Gross Amount Not Offset in the Balance Sheet		
June 30, 2019	**Gross Amount Recognized in the Balance Sheet**	**Counterparty Netting of Natural Gas Contracts [1]**	**Cash Collateral Posted**	**Net Amount**
($ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	**12**	**(5)**	**20**	**27**
Other assets	**6**	**(2)**	**-**	**4**
Accounts payable and other current liabilities	**(5)**	**5**	**-**	**-**
Other liabilities	**(2)**	**2**	**-**	**-**

[1] Positions, by counterparty, are netted where the intent and legal right to offset exists.

		Gross Amount Not Offset in the Balance Sheet		
December 31, 2018	Gross Amount Recognized in the Balance Sheet	Counterparty Netting of Natural Gas Contracts [1]	Cash Collateral Posted	Net Amount
($ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	5	(4)	16	17
Other assets	9	(1)	-	8
Accounts payable and other current liabilities	(22)	4	-	(18)
Other liabilities	(1)	1	-	-

[1] Positions, by counterparty, are netted where the intent and legal right to offset exists.

Derivative Instruments

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at June 30, 2019, these natural gas contracts 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)	**June 30, 2019**	December 31, 2018
Unrealized net gain (loss) recorded to current regulatory liabilities (assets)	**11**	(9)

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.

In addition to the physical natural gas supply contracts, FEI entered into financial commodity swap agreements during 2018 to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. All financial commodity swap agreements expired in the first quarter of 2019.

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:

		June 30, 2019		December 31, 2018	
($ millions)	**Fair Value Hierarchy**	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**2,595**	**3,348**	2,595	2,994

[1] Carrying value excludes unamortized debt issuance costs.

NEW ACCOUNTING POLICIES

Standard	Effective Date	Description	Effect on FEI
Leases	January 1, 2019	ASU No. 2016-02, *Leases* (ASC 842), requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional quantitative and qualitative disclosures. When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised. 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.	FEI applied the transition provisions as of the adoption date and did not retrospectively adjust prior periods. FEI elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. For operating leases, the future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which FEI accounts for as a single lease component. The Corporation has not elected to combine lease and non-lease components for the finance leases. Also, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows. As at June 30, 2019, the Corporation recognized $6 million of right-of-use assets and lease liabilities related to office facilities.

FUTURE ACCOUNTING PRONOUNCEMENTS

FEI considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The ASUs issued by FASB, but not yet adopted by FEI, were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on the Consolidated Financial Statements.

OTHER DEVELOPMENTS

Collective Agreements

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on March 31, 2019 and bargaining between FEI and IBEW continues. The IBEW represents employees in specified occupations in the areas of transmission and distribution.

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.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 338,944,220 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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