FORTIS BC

FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the Three and Nine Months Ended September 30, 2020

October 29, 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 and nine months ended September 30, 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; 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 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 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; 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 1,048,000 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

Decision on Multi-Year Rate Plan ("MRP") for 2020 to 2024

In June 2020, the British Columbia Utilities Commission ("BCUC") issued its decision on FEI's MRP application for the years 2020 to 2024 ("MRP Decision"). The approved MRP includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a similar approach to growth capital, a forecast approach to sustainment capital, an innovation fund recognizing the need to accelerate investment in clean energy innovation, a number of service quality indicators designed to ensure the Corporation maintains service levels, and a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity ("ROE").

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

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

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

In November 2019, the BCUC approved a delivery 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 were also approved in November 2019, residential rates decreased by 2.0 per cent effective January 1, 2020.

In August 2020, FEI filed an updated 2020 rate filing as well as a request for approval of 2021 delivery rates reflecting the impacts of the MRP Decision. As part of this filing, a 2020 average rate base of $5,047 million was forecasted as well as a request for the 2020 delivery rate increase to be made permanent, while the 2021 delivery rate increase request was 6.59 per cent with a 2021 forecasted average rate base of $5,213 million.

COVID-19 Customer Recovery Fund Deferral Account

In response to the impact of the global COVID-19 pandemic on British Columbians, FEI applied for and received interim approval from the BCUC in April 2020, with a final decision issued by the BCUC in June 2020, to provide the following deferral and relief offerings to its customers through the COVID-19 Customer Recovery Fund:

i. three-month bill payment deferral from April 1 to June 30 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 from April 1 to June 30 to small commercial customers that have closed their businesses due to the COVID-19 pandemic; and

iii. establishment of 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.

The COVID-19 Customer Recovery Fund deferral account captures 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.

In addition to amounts that are captured in the COVID-19 Customer Recovery Fund deferral account, the Corporation has other regulatory mechanisms, which are in place during the term of the MRP, that 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 method of recovery of the COVID-19 Customer Recovery Fund deferral account will be the subject of a future rate filing once the extent of the financial impact on customers due to the COVID-19 pandemic is known. However, for those customers provided relief in the form of three-month bill payment deferrals, repayment plans began in the third quarter of 2020. 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. FEI reviews the costs of natural gas with the BCUC every three months to ensure the rates passed on to customers are fair and reflect actual costs. In July 2020, FEI received approval to increase the commodity cost effective August 1, 2020, and in September 2020, FEI received approval to further increase the commodity cost effective October 1, 2020, both reflecting increases in the market cost of gas. 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 three and nine months ended September 30, 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 subsequent year.

As part of the approved MRP for the years 2020 to 2024, certain 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, continue to apply in 2020 and beyond while variances from the allowed ROE, including most components of operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, are shared. The continued application of regulatory deferral mechanisms has been reflected in the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 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.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year-to-Date		
Periods Ended September 30	**2020**	2019	Variance	**2020**	2019	Variance
Gas sales *(petajoules)*	**29**	33	(4)	**152**	156	(4)
($ millions)						
Revenue	**195**	183	12	**909**	903	6
Cost of natural gas	**47**	44	3	**273**	288	(15)
Operation and maintenance	**62**	62	-	**186**	189	(3)
Property and other taxes	**17**	17	-	**51**	51	-
Depreciation and amortization	**60**	60	-	**181**	180	1
Total expenses	**186**	183	3	**691**	708	(17)
Operating income	**9**	-	9	**218**	195	23
Add: Other income	**33**	37	(4)	**49**	67	(18)
Less: Finance charges	**67**	65	2	**151**	157	(6)
(Loss) earnings before income taxes	**(25)**	(28)	3	**116**	105	11
Income tax (recovery) expense	**(12)**	(14)	2	**5**	4	1
Net (loss) earnings	**(13)**	(14)	1	**111**	101	10
Net earnings attributable to non-controlling interests	**1**	1	-	**1**	1	-
Net (loss) earnings attributable to controlling interest	**(14)**	(15)	1	**110**	100	10

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended September 30, 2020 as compared to September 30, 2019:

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net loss attributable to controlling interest	**(1)**	Net loss for the quarter ended September 30, 2020 was $14 million compared to $15 million for the same period in 2019. The lower net loss was primarily due to: • higher investment in regulated assets, and • a higher favourable variance attributable to timing of operation and maintenance expenses incurred, as compared to those allowed in rates, net of amounts shared with customers, partially offset by • a decrease in gas mitigation incentive revenues, which is retained by the utility. Both 2020 and 2019 net earnings are based on an allowed ROE of 8.75 per cent and a deemed equity component of capital structure of 38.5 per cent.
Revenue	**12**	The increase in revenue was primarily due to: • an increase in revenue associated with regulatory deferrals, including flow-through mechanisms and revenue surpluses and deficiencies, • a higher cost of natural gas recovered from customers, and • an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets, partially offset by • a reduction in third party mitigation revenue on the Southern Crossing Pipeline ("SCP"). Gas sales volumes were lower than the same quarter in the previous year, primarily due to lower consumption by transportation customers, partially offset by higher consumption by residential customers, in part due to the impact of COVID-19. The variance between revenue associated with actual 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 and other revenue, resulting in no impact on total revenue.

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Cost of natural gas	**3**	The increase in the cost of natural gas was primarily due to: • 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, • a higher commodity cost, approved by the BCUC and effective August 1, 2020, of $2.279 per gigajoule, as compared to $1.549 per gigajoule for the third quarter in 2019, partially offset by • a lower storage and transport cost, approved by the BCUC, of $1.087 per gigajoule for the third quarter of 2020, as compared to $1.485 per gigajoule for the same quarter in 2019. 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. During the third quarter of 2020, volumes provided to customers under bundled services were higher while volumes sold to customers that received only delivery service were lower compared to the same quarter in 2019. Although total sales volumes were lower, the higher volumes provided to customers under bundled services drove a higher cost of natural gas in the third quarter of 2020.
Other income	**(4)**	Other income primarily consists of dividend income from tax loss utilization plan ("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 is recognized as a credit to other income. The decrease in other income was primarily due to a decrease in the non-service cost component of pension and other post-employment benefits and a lower equity component of AFUDC in 2020.
Finance charges	**2**	The increase in finance charges was primarily due to the issuance of long-term debentures in August 2019 and July 2020, which were used to repay credit facilities carrying lower interest rates.
Income tax recovery	**(2)**	The decrease in income tax recovery was primarily due to lower deductible temporary differences associated with property, plant and equipment and a lower loss before income tax.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the nine months ended September 30, 2020 as compared to September 30, 2019:

Year-to-Date		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net earnings attributable to controlling interest	**10**	On a year-to-date basis, net earnings were $110 million compared to $100 million for the same period in 2019. The increase was primarily due to: • higher investment in regulated assets, and • a higher favourable variance attributable to timing of operation and maintenance expenses incurred, as compared to those allowed in rates, net of amounts shared with customers, partially offset by • a $3 million lower income tax benefit as a result of the Corporation implementing a TLUP earlier in 2019 compared to 2020.
Revenue	**6**	The increase in revenue was primarily due to: • an increase in revenues associated with regulatory deferrals, including flow-through mechanisms and revenue surpluses and deficiencies, and • an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets, partially offset by • a lower cost of natural gas recovered from customers, • a reduction in third party mitigation revenue on the SCP, • an increase in the refund of the Midstream Cost Reconciliation Account ("MCRA") gas storage and transport cost regulatory liability. Gas sales volumes were lower year-to-date, primarily due to lower consumption by transportation customers, partially offset by higher consumption by residential customers, in part due to the impact of COVID-19. The variance between revenue associated with actual consumption and revenue forecasted for rate-setting purposes is captured either in the RSAM deferral account or the flow-through deferral account, for which the income statement offsets are recognized in alternative revenue and other revenue, resulting in no impact on total revenue.
Cost of natural gas	**(15)**	The decrease in the cost of natural gas for the nine months ended September 30, 2020 was primarily due to: • a lower storage and transport cost, approved by the BCUC, of $1.087 per gigajoule for the first nine months of 2020, as compared to $1.485 per gigajoule for the same period in 2019, and • an increase in the refund of the MCRA gas storage and transport cost regulatory liability, 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, and • a higher commodity cost, approved by the BCUC and effective August 1, 2020, of $2.279 per gigajoule, as compared to $1.549 per gigajoule effective throughout 2019.
Operation and maintenance	**(3)**	The lower operating and maintenance expense for the nine months ended September 30, 2020 was primarily due to the timing of incurring operating costs, partially offset by inflationary increases, higher Liquefied Natural Gas ("LNG") facility costs, higher regulatory fees and an increase in insurance premiums, the variances of which are not shared with customers.
Other income	**(18)**	The decrease in other income for the nine months ended September 30, 2020 was primarily due to lower dividend income due to FEI having a TLUP in place earlier in 2019 compared to 2020, and due to the same reasons as identified in the quarter. As part of the TLUP, the Corporation received dividend income from FHI relating to a $2,500 million (2019 - $2,500 million) investment in preferred shares.
Finance charges	**(6)**	The decrease in finance charges for the nine months ended September 30, 2020 was primarily due to FEI having a TLUP in place earlier in 2019 compared to 2020, partially offset by the same reasons as identified in the quarter.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended December 31, 2018 through September 30, 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)		
September 30, 2020	195	(14)
June 30, 2020	248	19
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

[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.

September 2020/2019 – Net loss was lower primarily due to higher investment in regulated assets; and ahigher favourable variance attributable to timing of operation and maintenance expenses incurred, as compared to those allowed in rates, net of amounts shared with customers; partially offset by a decrease in gas mitigation incentive revenue which is retained by the utility.

June 2020/2019 – Net earnings were higher primarily due to higher investment in regulated assets; higher favourable variances from the allowed ROE under the MRP, net of amounts shared with customers, which were in part due to the timing of incurring such costs throughout the year, as compared to the sharing of variances in operating costs during the same period in 2019 under the PBR plan; and the recognition of a non-recurring income tax recovery not subject to rate-setting; partially offset by a $3 million lower income tax benefit as a result of having a TLUP in place earlier in 2019 compared to 2020.

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.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between September 30, 2020 and December 31, 2019:

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Accounts receivable, net	**(124)**	The decrease was primarily due to: • lower tariff-based trade receivables, primarily as a result of seasonality of sales, and • lower gas cost mitigation receivables, partially offset by • higher income taxes receivable, net of the transfer of $17 million of instalment balance from prior year to ACGS, which was settled during 2020, and • a change in fair value of natural gas derivatives.
Inventories	**34**	The increase was primarily due to an increase of natural gas in storage injected during the summer months and an increased weighted average cost of natural gas purchased.
Prepaid expenses	**20**	The increase was primarily due to payment of annual property taxes made during the third quarter of 2020.
Regulatory assets (current and long-term)	**101**	The increase was primarily due to an increase in deferred income tax liability, the offset of which is deferred as a regulatory asset; higher Commodity Cost Reconciliation Account ("CCRA") and MCRA regulatory assets, due to increases in commodity and midstream costs exceeding those costs recovered in rates; Demand Side Management expenditures of $16 million; and $7 million recognized as an addition to the COVID-19 Customer Recovery Fund deferral account; partially offset by a lower RSAM deferral balance, which captures variances in gas use for residential and commercial customers.
Restricted cash	**20**	The increase in restricted cash was due to proceeds from a debenture issuance during the third quarter of 2020 that will be used to finance or refinance eligible projects under FortisBC's Green Bond Framework, which will primarily be allocated to energy efficiency, pollution prevention and control, and renewable natural gas categories, in addition to a deposit held in escrow as at September 30, 2020.
Property, plant and equipment, net	**126**	The increase was primarily due to capital expenditures of $301 million incurred during 2020, $8 million of project development costs which were transferred from regulatory assets to the Inland Gas Upgrades capital project in 2020, and $2 million in equity AFUDC, less: • depreciation expense, excluding net salvage provision, of $130 million, • changes in accrued capital expenditures of $40 million, • costs of removal of $10 million incurred, which is included as part of the net salvage provision in regulatory liabilities, and • contributions in aid of construction of $5 million received.
Accounts payable and other current liabilities	**(106)**	The decrease was primarily due to: • lower gas cost payables, as a result of lower volume and cost of gas purchased, • lower capital accruals, and • a lower carbon tax payable due to the seasonality of sales, partially offset by • the seasonal increase in credit balances related to customer payment plan arrangements.
Long-term debt	**199**	The increase was due to the issuance of $200 million of unsecured Medium Term Note Debentures ("MTN Debentures") during the third quarter of 2020, net of debt issuance costs. The proceeds will be used to finance or refinance eligible projects under FortisBC's Green Bond Framework.

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Deferred income tax	**57**	The increase was primarily due to higher deductible temporary differences associated with property, plant, and equipment and lower taxable temporary differences associated with certain regulatory deferral 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	**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

Year-to-Date September 30	2020	2019	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**251**	306	(55)
Investing activities	**(346)**	(359)	13
Financing activities	**114**	80	34
Net change in cash	**19**	27	(8)

Operating Activities

Cash provided by operating activities was $55 million lower compared to the same period in 2019 primarily due to:

- changes in regulatory assets and liabilities reflecting the increase of midstream and commodity costs that were recognized in the MCRA and CCRA deferral accounts, respectively, and have not yet been recovered in customer rates, partially offset by
- an increase in net earnings.

Investing Activities

Cash used for investing activities was $13 million lower in 2020 compared to the same period in 2019. This decrease was primarily due to the substantial completion of the Lower Mainland Intermediate Pressure System Upgrade ("LMIPSU") project in the prior year.

Financing Activities

Cash provided by financing activities was $34 million higher compared to the same period in 2019, primarily driven by a $140 million decrease in net repayments on the credit facility between years that was a result of a lower amount of cash provided by operating activities used to finance investing activities as compared to the same period in 2019. These lower net repayments were partially offset by lower proceeds from equity issuances, where 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, as compared to a $140 million issuance of common shares in the second quarter of 2019.

During the year-to-date period ended September 30, 2020, FEI paid common share dividends of $107 million (2019 - $100 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 with the exception of the issuance of $200 million of unsecured MTN Debentures during the third quarter of 2020.

Credit Ratings

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

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	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. Funding requirements are expected to be financed from a combination of cash flow from operations, 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. 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 September 30, 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)	**September 30, 2020**	December 31, 2019
Credit facility	**700**	700
Letter of credit facility	**55**	-
Draws on credit facility	**(124)**	(138)
Letters of credit outstanding	**(46)**	(47)
Credit facilities available	**585**	515

Debentures

On April 9, 2020, the Corporation filed a short form base shelf prospectus to establish a 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.

On July 9, 2020, FEI entered into an agreement to sell $200 million of MTN Debentures Series 33. The issuance represents FEI's inaugural Green Bond. Net proceeds will be used to finance or refinance eligible projects under FortisBC's Green Bond Framework and will primarily be allocated to energy efficiency, pollution prevention and control, and renewable natural gas categories. The MTN Debentures bear interest at a rate of 2.54 per cent to be paid semi-annually and mature on July 13, 2050.

Subsequent to the Green Bond issuance, $600 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 $400 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 the 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 and shifting of certain expenditures into 2021 related to the LMIPSU project and the shifting of Tilbury Phase 1B Expansion Project to future periods.

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:

	Quarter Ended September 30		**Year-to-Date September 30**	
($ millions)	**2020**	2019	**2020**	2019
Operation and maintenance expense charged to FBC (a)	**1**	1	**4**	4
Operation and maintenance expense charged to FHI (b)	**-**	1	**1**	1
Other income received from FHI (c)	**31**	32	**44**	55
Operation and maintenance expense charged to ACGS (d)	**1**	1	**1**	1
Total related party recoveries	**33**	35	**50**	61

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

(b) The Corporation charged FHI for office rent, management services, and other labour.

(c) As part of a TLUP implemented in the second quarter of 2020, the Corporation received dividend income from FHI relating to a $2,500 million (2019 - $2,500 million) investment in preferred shares.

(d) The Corporation charged ACGS for 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:

	Quarter Ended September 30		Year-to-Date September 30	
($ millions)	**2020**	2019	**2020**	2019
Operation and maintenance expense charged by FBC (a)	**1**	2	**4**	5
Operation and maintenance expense charged by FHI (b)	**3**	2	**9**	9
Finance charges paid to FHI (c)	**31**	32	**44**	55
Gas storage and purchases charged by ACGS (d)	**5**	5	**17**	17
Total related party costs	**40**	41	**74**	86

(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 2020, the Corporation paid FHI interest on $2,500 million (2019 - $2,500 million) 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:

	September 30, 2020		December 31, 2019	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
Fortis Inc.	**1**	**-**	-	-
FBC	**1**	**-**	-	-
FHI	**-**	**-**	1	-
ACGS	**-**	**(2)**	-	(2)
Total due from (due to) related parties	**2**	**(2)**	1	(2)

During the nine month period ended September 30, 2020, $17 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.

As at September 30, 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)	**September 30, 2020**	December 31, 2019
Unrealized net gain recorded to current regulatory liabilities	**14**	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:

		September 30, 2020		December 31, 2019	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**2,995**	**3,878**	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 credit loss allowance is estimated based on historical experience, current conditions, reasonable and supportable economic forecasts and accounts receivable aging. In addition to historical collection patterns, the Corporation considers customer class, customer size, economic indicators and certain other risk characteristics when evaluating the credit loss allowance. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

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 September 30, 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 a 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 September 30, 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 COVID-19 pandemic could create volatility in capital markets which in turn could affect the assumed long-term rate of return, the fair value of the Corporation's defined benefit pension plan assets, the assumed discount rate and the projected pension benefit obligations. However, there is not a requirement to remeasure such defined benefit pension plan assets and projected pension benefit obligations on an interim basis and therefore the Corporation intends to remeasure in the normal course as at December 31, 2020. While such market volatility has the potential to create significant actuarial unrealized losses, such losses are captured in regulatory deferral mechanisms, rather than the income statement, based on the regulatory framework in place.

Revenue Recognition

The effects of the COVID-19 pandemic did not affect how the Corporation recognized revenue for the three and nine months ended September 30, 2020, however, as approved by the BCUC, FEI has offered bill relief in the form of bill credits for three months to small commercial customers that have closed their businesses. Accordingly, FEI has assessed the requirement of contract collectibility when recognizing revenue from contracts with customers and has determined no changes to revenue recognition are required. The assessment of revenue recognition in future periods considered 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 initiated in May 2020 and is ongoing. 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 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 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. The COVID-19 pandemic could materially affect the overall demand for energy supply, or revenues, for certain industrial and commercial customers for which the demand for their products or services have been impacted, or who have certain restrictions in place.

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 September 30, 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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