FORTIS BC

FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the quarter and nine months ended September 30, 2021

October 28, 2021

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 2021 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 quarter and nine months ended September 30, 2021, 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, 2020, with 2019 comparatives, prepared in accordance with US GAAP.

In this MD&A, FHI refers to the Corporation's parent, FortisBC Holdings Inc., FBC refers to FortisBC Inc., FAES refers to FortisBC Alternative Energy Services 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 expected level of capital expenditures, including forecasted project costs, and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI and debenture issuances.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: absence of COVID-19 pandemic impacts; 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; 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: COVID-19 pandemic risk; 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; capital resources and liquidity risk; competitiveness and commodity price risk; counterparty credit risk; natural gas supply risk; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the "Business

Risk Management" section of this MD&A and the Corporation's MD&A and AIF for the year ended December 31, 2020.

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 1,059,200 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 and renewable 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 regulated by the British Columbia Utilities Commission ("BCUC"). Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as rates, construction plans, and financing.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a leader in the North American regulated electric and natural gas utility industry. 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 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 other revenue and 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 were 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 December 2020, the BCUC approved a January 1, 2020 delivery rate increase of 2.0 per cent over 2019 rates as well as a January 1, 2021 delivery rate increase of 6.62 per cent over 2020 rates. These delivery rate increases include a 2020 forecast average rate base of $5,047 million and a 2021 forecast average rate base of $5,212 million.

In July 2021, FEI filed a request for approval of 2022 delivery rates under the MRP. As part of this filling, a 2022 average rate base of $5,409 million was forecasted, while the 2022 delivery rate increase request was 8.07 per cent. As part of this filing, FEI applied for approval of a deferral account which would capture development costs related to the Regional Gas Supply Diversity Project.

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a Generic Cost of Capital Proceeding (the "GCOC Proceeding") was being initiated, including a review of the deemed common equity component of total capital structure and the allowed ROE on common equity for regulated utilities in BC. The BCUC has determined the GCOC Proceeding will move forward in two stages. The first stage will address the allowed return on equity and deemed equity component of capital structure for FEI and FBC and the effective date for any change, whether re-establishment of a formulaic ROE automatic adjustment mechanism is warranted and if so, what it would look like and when it would take effect, and the criteria or other triggers for a future cost of capital proceeding. Other utilities will be reviewed in Stage 2. The BCUC has also determined it will address deferral account financing costs after the completion of both Stages 1 and 2. The BCUC has directed FEI and FBC to submit evidence in support of their respective cost of capital as part of Stage 1 of the GCOC Proceeding by January 31, 2022.

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 a decision in June 2020 from the BCUC for approval of the COVID-19 Customer Recovery Fund deferral account which provided relief offerings in the form of bill payment deferrals and bill credits to certain eligible customers, and to capture the otherwise uncollectible revenues from the Corporation's customers resulting from the COVID-19 pandemic which could otherwise have an impact on net earnings.

As at September 30, 2021, the balance of the COVID-19 Customer Recovery Fund deferral account was $3 million (December 31, 2020 - $5 million), which includes a $2 million estimate of the expected uncollectible revenues related to COVID-19, the offset of which has been recognized as a credit loss allowance in the balance sheet. 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. For those customers provided relief in the form of three-month bill payment deferrals, repayment plans began in the third quarter of 2020.

Customer Rates and Deferral Mechanisms

Customer rates include both the delivery charge and the cost of natural gas, consisting of the commodity cost, and the storage and transport cost. The Corporation's customer rates are based on estimates and forecasts. In order to manage the risk of forecast error associated with some of these estimates and to manage volatility in rates, a number of regulatory deferral accounts are in place.

Variances from regulated forecasts used to set rates for natural gas revenue and cost of natural gas 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 periods ended September 30, 2021 and 2020.

FEI reviews the costs of natural gas with the BCUC either quarterly or annually to ensure the rates passed on to customers are fair and reflect actual costs. FEI received approval to increase the commodity rate effective August 1, 2020, October 1, 2020, and October 1, 2021. In December 2020, FEI received approval to increase the storage and transport rate effective January 1, 2021.

As part of the MRP for the years 2020 to 2024, the BCUC has approved the continuation of certain regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. These deferral mechanisms capture variances from regulated forecasts and flow them through customer rates in subsequent years. 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.

Directions to the BCUC

In July 2021, the Provincial government announced amendments to the Greenhouse Gas Reduction (Clean Energy) Regulation ("GGRR") to enable increased acquisition of renewable gases. The amendments include:

- Increasing the amount of renewable gas FEI can acquire from 5 per cent to 15 per cent of system load;
- Enabling FEI to acquire hydrogen, lignin and synthesis gas; and
- Increasing the price cap for the acquisition of renewable gas to $31 per gigajoule, indexed to inflation.

The amendments to the GGRR further expand FEI's ability to invest in renewable gas, supporting the transition to a lower carbon economy in support of policies established by various levels of government.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter Ended			Nine Months Ended		
Periods Ended September 30	**2021**	2020	Variance	**2021**	2020	Variance
Gas sales *(petajoules)*	**32**	29	**3**	**154**	152	**2**
($ millions)						
Revenue	**222**	195	**27**	**1,124**	909	**215**
Cost of natural gas	**63**	47	**16**	**424**	273	**151**
Operation and maintenance	**63**	62	**1**	**199**	186	**13**
Property and other taxes	**18**	17	**1**	**54**	51	**3**
Depreciation and amortization	**72**	60	**12**	**215**	181	**34**
Total expenses	**216**	186	**30**	**892**	691	**201**
Operating income	**6**	9	**(3)**	**232**	218	**14**
Add: Other income	**3**	33	**(30)**	**8**	49	**(41)**
Less: Finance charges	**36**	67	**(31)**	**109**	151	**(42)**
(Loss) earnings before income taxes	**(27)**	(25)	**(2)**	**131**	116	**15**
Income tax (recovery) expense	**(8)**	(12)	**4**	**26**	5	**21**
Net (loss) earnings	**(19)**	(13)	**(6)**	**105**	111	**(6)**
Net earnings attributable to non-controlling interests	**1**	1	**-**	**1**	1	**-**
Net (loss) earnings attributable to controlling interest	**(20)**	(14)	**(6)**	**104**	110	**(6)**

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended September 30, 2021 as compared to September 30, 2020:

Quarter		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net loss attributable to controlling interest	**6**	Net loss for the quarter ended September 30, 2021 was $20 million compared to $14 million for the same period in 2020. The increase in the net loss was primarily due to: • a $9 million lower income tax benefit as a result of the Corporation implementing a tax loss utilization plan ("TLUP") in the second quarter of 2020, where no similar TLUP was implemented in 2021, partially offset by • a higher investment in regulated assets. Both 2021 and 2020 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	**27**	The increase in revenue as compared to the same period in 2020 was primarily due to: • an increase in revenue approved for rate-setting purposes, resulting from higher investment in regulated assets, and • a higher cost of natural gas recovered from customers, as approved by the BCUC, partially offset by • a decrease in revenue associated with regulatory deferrals. Gas sales volumes were higher than the same quarter in the previous year, primarily due to higher consumption by transportation customers. 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	**16**	The increase was primarily due to: • a higher commodity cost, approved by the BCUC, of $2.844 per gigajoule for the third quarter of 2021, as compared to $1.549 per gigajoule effective until July 31, 2020 and $2.279 per gigajoule effective August 1, 2020, and • a higher storage and transport cost, approved by the BCUC, of $1.350 per gigajoule for 2021, as compared to $1.087 per gigajoule for 2020. Customers that purchase bundled services from FEI require the Corporation to not only provide delivery service, but also provide the gas commodity, which entails managing the commodity portfolio, including the costs to procure, store and transport the gas. During the third quarter of 2021, volumes provided to customers under bundled services were comparable while volumes sold to customers that received only delivery service were higher compared to the same quarter in 2020. Because the increase in total sales volumes reported in this MD&A was due to an increase in volumes to customers that received only delivery service, there was no impact on the cost of natural gas as a result of the overall sales volume increase in the third quarter of 2021.
Depreciation and amortization	**12**	The increase was primarily due to lower amortization of regulatory liabilities, as well as a higher depreciable asset base compared to the same quarter in 2020.
Other income	**(30)**	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 is recognized as a credit to other income. As part of the TLUP implemented in 2020, the Corporation received dividend income from FHI relating to a $2,500 million investment in preferred shares. The decrease was primarily due to lower dividend income due to FEI having a TLUP in place since the second quarter of 2020, where no similar TLUP was implemented in 2021, partially offset by a higher equity component of AFUDC in 2021.
Finance charges	**(31)**	The decrease was primarily due to FEI having a TLUP in place since the second quarter of 2020, where no similar TLUP was implemented in 2021, partially offset by the issuance of Medium Term Note Debentures ("MTN Debentures") in July 2020 and in April 2021, which were used to repay credit facilities carrying lower interest rates.
Income tax recovery	**(4)**	The decrease was primarily due to a lower TLUP tax recovery, partially offset by lower taxable temporary differences associated with amortization of regulatory deferrals being recovered from customers in rates, and higher deductible temporary differences associated with property, plant and equipment.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the nine months ended September 30, 2021 as compared to September 30, 2020:

Nine Months		
Item	**Increase (Decrease)** *($ millions)*	**Explanation**
Net earnings attributable to controlling interest	**(6)**	For the nine months ended September 30, 2021, net earnings were $104 million compared to $110 million for the same period in 2020. The decrease was primarily due to: • a $12 million lower income tax benefit as a result of the Corporation implementing a TLUP in the second quarter of 2020, where no similar TLUP was implemented in 2021, • lower favourable variances attributable to timing of operation and maintenance expenses, as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2020, and • the recognition of a non-recurring income tax recovery not subject to rate-setting in 2020, partially offset by • a higher investment in regulated assets.
Revenue	**215**	The increase in revenue as compared to the same period in 2020 was primarily due to: • a higher cost of natural gas recovered from customers, as approved by the BCUC, • an increase in revenue approved for rate-setting purposes, resulting from higher investment in regulated assets, • an increase in revenue associated with regulatory deferrals, and • an increase in the recovery of the Midstream Cost Reconciliation Account ("MCRA") gas storage and transport cost regulatory asset, compared to the prior year refund of the MCRA gas storage and transport cost regulatory liability. For the nine months ended September 30, 2021, gas sales volumes were higher compared to the same period in 2020 primarily due to the same reasons as identified in the quarter.
Cost of natural gas	**151**	The increase was primarily due to: • a higher commodity cost, approved by the BCUC, of $2.844 per gigajoule for the first nine months of 2021, as compared to $1.549 per gigajoule effective until July 31, 2020 and $2.279 per gigajoule effective August 1, 2020, • a higher storage and transport cost, approved by the BCUC, of $1.350 per gigajoule for 2021, as compared to $1.087 per gigajoule for 2020, and • an increase in the recovery of the MCRA gas storage and transport cost regulatory asset, compared to the prior year refund of the MCRA gas storage and transport cost regulatory liability.
Operation and maintenance	**13**	The increase was primarily due to the timing of incurring costs and inflationary increases. Also contributing to the increase were higher costs associated with FEI's integrity management program, higher regulatory fees, and an increase in insurance premiums, the variances of which are flowed through to customers.
Depreciation and amortization	**34**	The increase was primarily due to the same reasons as identified in the quarter.
Other income	**(41)**	The decrease was primarily due to the same reasons as identified in the quarter.
Finance charges	**(42)**	The decrease was primarily due to the same reasons as identified in the quarter.
Income tax expense	**21**	The increase was primarily due to a lower TLUP tax recovery, higher net earnings before tax, higher taxable temporary differences associated with amortization of regulatory deferrals being recovered from customers in rates, and the absence of a non-recurring income tax recovery recognized in the same period in 2020.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended December 31, 2019 through September 30, 2021. 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, 2021	222	(20)
June 30, 2021	316	14
March 31, 2021	586	110
December 31, 2020	476	78
September 30, 2020	195	(14)
June 30, 2020	248	19
March 31, 2020	466	105
December 31, 2019	427	82

[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.

September 2021/2020 – Net earnings were lower due to a $9 million lower income tax benefit as a result of the Corporation implementing a TLUP in the second quarter of 2020, where no similar TLUP was implemented in 2021; partially offset by a higher investment in regulated assets.

June 2021/2020 – Net earnings were lower due to a $3 million lower income tax benefit as a result of the Corporation implementing a TLUP in the second quarter of 2020, where no similar TLUP was implemented in 2021; lower favourable variances attributable to timing of operation and maintenance expenses for the quarter as compared to those allowed in rates, net of amounts shared with customers; and the recognition of a non-recurring income tax recovery not subject to rate-setting in 2020; partially offset by a higher investment in regulated assets.

March 2021/2020 – Net earnings were higher primarily due to higher investment in regulated assets; and higher favorable variances attributable to timing of operation and maintenance expenses for the quarter, as compared to those allowed in rates, net of amounts shared with customers.

December 2020/2019 – Net earnings were lower due to higher operation and maintenance expenses incurred, as compared to those allowed in rates, net of amounts shared with customers; a $1 million lower income tax benefit from the TLUP; and a decrease in gas mitigation incentive revenues, which is retained by the utility; partially offset by higher investment in regulated assets.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between September 30, 2021 and December 31, 2020:

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Accounts receivable, net	**(129)**	The decrease was primarily due to: • lower tariff-based trade receivables, primarily as a result of seasonality of sales, • lower cash collateral paid for natural gas contracts, and • lower tax receivables, partially offset by • higher gas cost mitigation receivables.
Inventories	**47**	The increase was primarily due to an increase of natural gas in storage injected during the summer months and a higher weighted average cost of natural gas.
Prepaid expenses	**21**	The increase was primarily due to payment of annual property taxes in the quarter.
Regulatory assets (current and long-term)	**100**	The increase was primarily due to: • an increase in deferred income tax liabilities, the offset of which is deferred as a regulatory asset, • an increase in Demand Side Management ("DSM") expenditures, • a higher Commodity Cost Reconciliation Account regulatory asset due to increases in commodity costs exceeding those costs recovered in customer rates, and • a higher flow-through deferral account balance related to variances from regulated forecast items, partially offset by • a lower RSAM deferral balance, which captures variances in gas use for residential and commercial customers, and • a lower MCRA regulatory asset, which moved from a regulatory asset position at December 31, 2020 to a regulatory liability position at September 30, 2021 due to the variance between midstream costs incurred and recovered in customer rates.
Property, plant and equipment, net	**167**	The increase was primarily due to capital expenditures of $306 million, changes in accrued capital expenditures of $7 million, and $5 million in equity AFUDC, less: • depreciation expense, excluding net salvage provision, of $135 million, • costs of removal of $14 million incurred, which is included as part of the net salvage provision in regulatory liabilities, and • contributions in aid of construction of $2 million received.
Credit facilities	**(123)**	The decrease was primarily a result of net repayments with proceeds received from a $100 million equity injection from the Corporation's parent company, FHI, during the first quarter of 2021 and from the issuance of $150 million in unsecured MTN Debentures during the second quarter of 2021.
Regulatory liabilities (current and long-term)	**25**	The increase was primarily due to: • an increase in the net salvage provision, and • a higher MCRA regulatory liability due to higher mitigation activities offset by higher midstream costs incurred compared to those recovered in customer rates, partially offset by • a decrease in the revenue surplus deferral account owing to customers from prior years.
Long-term debt	**150**	The increase was due to the issuance of $150 million of unsecured MTN Debentures during the second quarter of 2021, the proceeds of which were used to repay existing credit facilities in support of the debt component of FEI's capital expenditure program.
Deferred income tax	**51**	The increase was primarily due to higher deductible temporary differences associated with property, plant and equipment, lower taxable temporary differences associated with certain regulatory deferral asset and liability accounts, and utilization of loss carryforwards to reduce current year's taxes.

Balance Sheet Account	Increase (Decrease) *($ millions)*	Explanation
Common shares	**100**	The increase was due to a $100 million equity issuance during the first quarter of 2021. The proceeds were used to repay credit facilities in support of the equity component of FEI's capital expenditure program.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

In the normal course of operations, 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, and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in DSM 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 under the "COVID-19-Pandemic" and "Capital Resources and Liquidity" risks in the Business Risk Management section of the Corporation's MD&A for the year ended December 31, 2020, there could be higher than normal working capital deficiencies in the short-term and, 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.

Summary of Consolidated Cash Flows

Nine Months Ended	2021	2020	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**359**	251	108
Investing activities	**(375)**	(346)	(29)
Financing activities	**8**	114	(106)
Net change in cash	**(8)**	19	(27)

Operating Activities

Cash provided by operating activities was $108 million higher in 2021 compared to the same period in 2020 primarily due to:

- higher net earnings, after non-cash adjustments,
- changes in regulatory assets and liabilities, and
- higher cash provided by changes in working capital, primarily due to changes in accounts payable between periods.

Investing Activities

Cash used for investing activities was $29 million higher in 2021 compared to the same period in 2020 primarily due to by higher investment in DSM activities and higher capital expenditures compared to the same period in 2020.

Financing Activities

Cash provided by financing activities was $106 million lower in 2021 compared to the same period in 2020, primarily driven by higher net repayments of credit facilities in the first quarter of 2021 as compared to the same period in 2020, which was financed primarily by the issuance of $150 million of unsecured MTN Debentures and a $100 million issuance of common shares (2020 - $40 million).

During the nine months ended September 30, 2021, FEI paid common share dividends of $110 million (2020 - $107 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, 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, 2020, 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

Credit Facilities and Debentures

Credit Facilities

As at September 30, 2021, the Corporation had a $700 million syndicated credit facility available, which matures in July 2026, and a $55 million uncommitted letter of credit facility which matures in March 2023.

The following summary outlines the Corporation's credit facilities:

($ millions)	**September 30, 2021**	December 31, 2020
Credit facility	**700**	700
Letter of credit facility	**55**	55
Draws on credit facility	**(135)**	(258)
Letters of credit outstanding	**(42)**	(46)
Credit facilities available	**578**	451

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 April 12, 2021, FEI entered into an agreement to sell $150 million of MTN Debentures Series 34. The MTN Debentures bear interest at a rate of 2.42 per cent to be paid semi-annually and mature on July 18, 2031. The closing of the issuance occurred on April 14, 2021, with net proceeds being used to repay existing credit facilities.

As at September 30, 2021, $450 million remains available under the MTN Debenture Program.

PROJECTED CAPITAL EXPENDITURES

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenditures that will be incurred in the ongoing operation of its business.

The initial approval from the BCUC to proceed with capital projects can occur through a number of processes, including revenue requirement applications and Certificate of Public Convenience and Necessity ("CPCN") applications. Once the projects are approved, the regulatory process allows for capital project costs to be reviewed by the BCUC subsequent to the capital project being completed and in service to confirm that all costs are recoverable in customer rates.

The 2021 projected capital expenditures are approximately $500 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 these 2021 projected capital expenditures are more significant projects, including the Inland Gas Upgrade, Pattullo Gas Line Replacement ("PGR"), Okanagan Capacity Upgrade, Tilbury LNG Storage Expansion, Transmission Integrity Management Capabilities ("TIMC"), and Tilbury Phase 1B Expansion projects, among others, which were described in the MD&A for the year ended December 31, 2020.

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, 2020 with the exception of the following updates.

In February 2021, FEI filed a CPCN application for the coastal transmission system section of the TIMC Project ("CTS TIMC"), with a forecast cost of the capital project of approximately $100 million, exclusive of feasibility and development costs already incurred. In May 2021, FEI filed a CPCN application for an Advanced Metering Infrastructure project to automate the meter reading process for FEI customers, with a forecast cost of the capital project for the installation of advanced meters of approximately $400 million, excluding AFUDC and project management costs, to be incurred throughout the duration of the project. In June 2021, FEI received approval from the BCUC for the PGR project substantially as filed.

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 not completing the 2021 capital work as forecast.

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		Nine months ended September 30	
($ millions)	**2021**	2020	**2021**	2020
Operation and maintenance expense charged to FBC (a)	**2**	1	**5**	4
Operation and maintenance expense charged to FHI (b)	**-**	-	**1**	1
Other income received from FHI (c)	**-**	31	**-**	44
Operation and maintenance expense charged to ACGS (d)	**1**	1	**1**	1
Total related party recoveries	**3**	33	**7**	50

(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) The Corporation received dividend income from FHI relating to a $nil (2020 - $2,500 million) investment in preferred shares that existed in 2020. During the nine months ended September 30, 2021, no TLUP has been implemented.

(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		Nine months ended September 30	
($ millions)	**2021**	2020	**2021**	2020
Operation and maintenance expense charged by FBC (a)	**1**	1	**4**	4
Operation and maintenance expense charged by FHI (b)	**3**	3	**9**	9
Finance charges paid to FHI (c)	**-**	31	**-**	44
Gas storage and purchases charged by ACGS (d)	**6**	5	**21**	17
Total related party costs	**10**	40	**34**	74

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

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

(c) The Corporation paid FHI interest on $nil (2020 - $2,500 million) on intercompany subordinated debt as part of a TLUP that existed in 2020. During the nine months ended September 30, 2021, no TLUP has been implemented.

(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, 2021		December 31, 2020	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
Fortis	**-**	**-**	1	-
FBC	**-**	**-**	2	-
FHI	**-**	**-**	1	-
ACGS	**-**	**(2)**	-	(1)
Total (due to) due from related parties	**-**	**(2)**	4	(1)

During 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.

During 2020, FEI paid $6 million to an affiliated entity related to the purchase of capital expenditures.

FINANCIAL INSTRUMENTS

Derivative Instruments

There 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, 2020. Additional details are provided in the notes to the Condensed Consolidated Interim Financial Statements.

As at September 30, 2021, 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, 2021**	December 31, 2020
Unrealized net gain recorded to current regulatory liabilities	**3**	2

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, excluding unamortized debt issuance costs, and estimated fair value of the Corporation's long-term debt.

		As at			
		September 30, 2021		December 31, 2020	
($ millions)	Fair Value Hierarchy	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	**3,145**	**3,724**	2,995	3,933

ACCOUNTING MATTERS

New Accounting Policies

FEI considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the nine months ended September 30, 2021, there were no ASUs issued by FASB that have a material impact on the Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

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

OTHER DEVELOPMENTS

Provincial Energy Policy

In October 2021, the Province of British Columbia released an update to its economic and climate plan, the CleanBC Roadmap to 2030 (CleanBC), which was introduced in late 2018. The update to CleanBC includes a series of new initiatives designed to achieve the BC government's targets of reducing greenhouse gas emissions by 40 per cent by 2030 based on 2007 levels. The Province will be further defining policy details, enabling regulation and implementation plans. FEI is continuing to assess the impact of the various initiatives and any further legislative or policy changes that may arise as a result.

Collective Agreements

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

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") was ratified in June 2021 and expires on March 31, 2024. The IBEW represents employees in specified occupations in the areas of transmission and distribution.

BUSINESS RISK MANAGEMENT

Climate Change and Competitiveness and Commodity Price Risk have been identified as risk factors in the Annual MD&A; these risk factors are highlighted by the CleanBC announcement as disclosed in the Other Developments section of this MD&A.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 347,369,254 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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