



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

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

Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matter

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

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

Key Audit Matter Description

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

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

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

How the Key Audit Matter was Addressed in the Audit

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

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
February 9, 2023

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

ASSETS	2022	2021
Current assets		
Cash	\$ 43	\$ 4
Accounts receivable and other current assets, net (notes 4, 22 and 24)	580	344
Inventories (note 5)	121	74
Prepaid expenses	7	7
Regulatory assets (notes 8 and 22)	220	133
Total current assets	971	562
Property, plant and equipment, net (note 6)	5,839	5,480
Intangible assets, net (note 7)	126	123
Regulatory assets (note 8 and 22)	1,040	1,080
Other assets (note 9)	20	15
Goodwill (note 10)	913	913
TOTAL ASSETS	\$ 8,909	\$ 8,173
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (notes 23 and 26)	\$ 203	\$ 242
Accounts payable and other current liabilities (notes 11, 22 and 24)	788	530
Current portion of finance leases and finance obligation (note 13)	1	4
Regulatory liabilities (note 8)	108	26
Total current liabilities	1,100	802
Long-term debt (notes 12 and 22)	3,273	3,123
Finance leases and finance obligation (note 13)	1	1
Regulatory liabilities (note 8)	416	210
Deferred income tax (note 21)	668	674
Other liabilities (notes 14, 16 and 22)	138	257
Total liabilities	5,596	5,067
Commitments (note 25)		
Equity		
Common shares ¹ (note 15)	1,641	1,491
Additional paid-in capital	1,245	1,245
Retained earnings	418	361
Shareholder's equity	3,304	3,097
Non-controlling interests	9	9
Total equity	3,313	3,106
TOTAL LIABILITIES AND EQUITY	\$ 8,909	\$ 8,173

¹ 500 million authorized common shares with no par value; 357.2 million issued and outstanding at December 31, 2022 (December 31, 2021 – 347.4 million).

Approved on behalf of the Board:

(Signed by) Peter Blake
Director

(Signed by) Roger Dall'Antonia
Director

See accompanying notes to these Consolidated Financial Statements.

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

	2022	2021
Revenue (note 17)	\$ 2,083	\$ 1,714
Expenses		
Cost of natural gas	1,055	713
Operation and maintenance (notes 4 and 24)	292	284
Property and other taxes	72	71
Depreciation and amortization (notes 6, 7 and 8)	302	285
Total expenses	1,721	1,353
Operating income	362	361
Other income (notes 18 and 24)	123	12
Finance charges (notes 19 and 24)	246	144
Earnings before income taxes	239	229
Income tax expense (note 21)	11	46
Net earnings	228	183
Net earnings attributable to non-controlling interests	1	1
Net earnings attributable to controlling interest	\$ 227	\$ 182

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

	Common Shares (#millions)	Common Shares	Additional Paid-in Capital	Non- Controlling Interests	Retained Earnings	Total
As at December 31, 2020	341.2	\$ 1,391	\$ 1,245	\$ 9	\$ 344	\$ 2,989
Net earnings	-	-	-	1	182	183
Net distribution to Mt. Hayes Storage LP Partners	-	-	-	(1)	-	(1)
Issuance of common shares	6.2	100	-	-	-	100
Dividends on common shares	-	-	-	-	(165)	(165)
As at December 31, 2021	347.4	\$ 1,491	\$ 1,245	\$ 9	\$ 361	\$ 3,106
Net earnings	-	-	-	1	227	228
Net distribution to Mt. Hayes Storage LP Partners	-	-	-	(1)	-	(1)
Issuance of common shares	9.8	150	-	-	-	150
Dividends on common shares	-	-	-	-	(170)	(170)
As at December 31, 2022	357.2	\$ 1,641	\$ 1,245	\$ 9	\$ 418	\$ 3,313

See accompanying notes to these Consolidated Financial Statements.

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

	2022	2021
Operating activities		
Net earnings	\$ 228	\$ 183
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization (notes 6, 7 and 8)	302	285
Accrued employee future benefits	(2)	13
Equity component of allowance for funds used during construction (notes 6 and 18)	(13)	(7)
Deferred income tax, net of regulatory adjustments (note 21)	(4)	16
Amortization of debt issue costs	1	1
Change in regulatory assets and liabilities	155	(70)
Change in working capital (note 20)	(55)	94
Cash from operating activities	612	515
Investing activities		
Property, plant and equipment additions (note 20)	(573)	(457)
Intangible asset additions	(16)	(18)
Contributions in aid of construction	15	7
Change in other assets and other liabilities	(85)	(82)
Cash used in investing activities	(659)	(550)
Financing activities		
Net repayment of credit facility (note 23)	(39)	(16)
Proceeds from issuance of long-term debt (note 12)	150	150
Debt issuance costs	(1)	(2)
Repayment of finance leases and finance obligation (note 13)	(3)	(36)
Distributions to non-controlling interests	(1)	(1)
Issuance of common shares	150	100
Dividends on common shares	(170)	(165)
Cash from financing activities	86	30
Net change in cash	39	(5)
Cash at beginning of year	4	9
	\$	
Cash at end of year	43	\$ 4

Supplementary Information to Consolidated Statements of Cash Flows (note 20).

See accompanying notes to these Consolidated Financial Statements.

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

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FEI is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,075,600 residential, commercial, industrial, and transportation customers through approximately 51,200 kilometers of natural gas pipelines. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as non-controlling interests. All intercompany transactions and balances have been eliminated upon consolidation.

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

Regulation

The Corporation is regulated by the British Columbia Utilities Commission ("BCUC"). Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as rates, construction plans, and financing.

The Corporation's Consolidated Financial Statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from those for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ended December 31, 2022 and 2021 are described in these "Summary of Significant Accounting Policies", note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 16 "Employee Future Benefits", and note 21 "Income Taxes".

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

Cash

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses

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

Regulatory Assets and Liabilities

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

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

Inventories

Inventories of gas in storage represent gas purchases injected into storage and are valued at weighted average cost. The cost of gas in storage is recovered from customers in future rates.

Property, Plant and Equipment

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets

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

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

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

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

Leases

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

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability is recognized on the balance sheet. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components and fixed non-lease components, which the Corporation accounts for as a single lease component.

The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised. Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense straight-line over the lease term.

Finance leases are amortized over the lease term, except where ownership of the asset is transferred at the end of the lease term, in which case finance leases are amortized over the estimated service life of the underlying asset. Where the BCUC has approved recovery of the lease payments for rate-setting purposes instead of the depreciation expense and finance charges otherwise recognized for accounting purposes, the depreciation expense related to the lease is modified to conform with the rate-setting process. Therefore, the total depreciation expense and finance charges recognized during a period equals the expense included in allowable costs for rate-making purposes during that period, with the difference recognized as a regulatory asset to be recovered from customers over the term of the related arrangements.

Impairment of Long-Lived Assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

Asset Retirement Obligations

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

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

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

As the fair value of future removal and site restoration costs for the Corporation's natural gas transmission and distribution systems are not currently determinable as they will be used in perpetuity, the Corporation has not recognized an ARO as at December 31, 2022 and 2021. For regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates.

Revenue Recognition

Revenue from Contracts with Customers

Natural gas revenue is billed at rates approved by the BCUC and is bundled to include the costs of delivery, commodity and midstream. The delivery component of the rates includes customer service as well as other corporate and service functions.

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

Other contract revenue from customers includes fees charged for utility customer connections, which is recognized as revenue when billed to the customer, and agreements with certain customers to provide transportation of natural gas over utility owned infrastructure, which is recognized as revenue as natural gas is delivered, using an output measure of progress, GJ delivered.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Alternative Revenue

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

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from allowed Return on Equity ("ROE"), approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current Multi-Year Rate Plan ("MRP") for 2020 to 2024. In addition, alternative revenue includes variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year in a Revenue Stabilization Adjustment Mechanism, which is either refunded to or recovered from customers in rates within 2 years. Variances in the forecast versus actual customer use rate for industrial and other customer revenue are recognized in a flow-through deferral account to be either refunded to or recovered from customers in the following year.

Other Revenue (Expense)

Other revenue (expense) is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for natural gas revenue. As part of the decision received on FEI's MRP application for the years 2020 to 2024 ("MRP Decision"), effective January 1, 2020 and effective through to the end of the MRP term, the Corporation has a flow-through deferral account that captures variances from certain regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

The Corporation disaggregates revenue by type of customer, as disclosed in note 17. This represents the level of disaggregation used by the Corporation to evaluate performance.

Employee Future Benefits

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

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

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of assets is determined using a smoothed value that recognizes investment gains and losses gradually over a 3 year period.

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

The Corporation records the funded or unfunded status of its defined benefit pension plans and OPEB plans on the balance sheet. Unamortized balances relating to past service costs and net actuarial gains and losses have been recognized in regulatory assets and are expected to be recovered from customers in future rates. Subsequent changes to past service costs and net actuarial gains and losses are recognized as an expense, where required by the BCUC, or otherwise as a change in the regulatory asset or liability.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fair Value

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

Derivative Financial Instruments

The Corporation uses physical and financial derivative instruments, including natural gas supply contracts and financial swaps, to reduce exposure to natural gas price volatility. None of the derivative instruments were designated as qualifying accounting hedges, but rather serve as economic hedges.

For derivative instruments, any unrealized gains or losses, to the extent that they are refundable or recoverable through regulated rates, associated with the change in fair value of these contracts, and realized losses or gains associated with the settlement of these contracts, are deferred as a regulatory asset or regulatory liability. Had the BCUC not allowed the deferral of unrealized losses or gains resulting from these hedging activities as regulatory assets or liabilities, the Corporation would either designate these contracts as a qualifying cash flow hedge and, to the extent that the cash flow hedges are effective, the unrealized losses or gains would be recognized in accumulated other comprehensive income, net of taxes, or resulting gains and losses would be recorded in the Consolidated Statements of Earnings.

Derivative contracts under master netting agreements and collateral positions are presented on a gross basis.

Debt Issuance Costs

Costs incurred to arrange debt financing are recognized as a direct deduction from the carrying amount of the debt liability and are accounted for using the effective interest method over the life of the related financial liability. Costs incurred to arrange credit facilities are recognized as other assets and amortized over the term of the facility on a straight-line basis.

Sales Taxes

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

Income Taxes

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

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

FortisBC Energy Inc.
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Segment Reporting

The Corporation has a single reportable segment.

Use of Accounting Estimates

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates is described in the "Summary of Significant Accounting Policies", note 8 "Regulatory Assets and Liabilities" and note 25 "Commitments". Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

New Accounting Policies

FEI considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the year ended December 31, 2022, there were no ASUs issued by FASB that have a material impact on these Consolidated Financial Statements.

Future Accounting Pronouncements

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

FortisBC Energy Inc.
Notes to the Consolidated Financial Statements
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3. REGULATORY MATTERS

Decision on Multi-Year Rate Plan for 2020 to 2024

In June 2020, the BCUC issued its decision on FEI's MRP application for the years 2020 to 2024. 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 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.

In December 2021, the BCUC approved a delivery rate increase of 8.07 per cent over 2021 rates, effective January 1, 2022. As part of this filing, a 2022 average rate base of \$5,409 million was approved.

4. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

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

<i>(\$ millions)</i>	2022	2021
Accrued unbilled revenue from contracts with customers	271	200
Billed accounts receivable from contracts with customers	161	112
Gas cost mitigation receivables ¹	72	15
Fair value of derivative instruments (note 22)	47	4
Cash collateral posted (note 22)	28	7
Receivables for third party services and other assets ¹	10	14
Amounts due from related parties (note 24)	-	1
Allowance for credit losses	(9)	(9)
Total accounts receivable and other current assets	580	344

¹ Representative of receivables not related to contracts with customers.

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

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

<i>(\$ millions)</i>	2022	2021
Beginning of year	(9)	(14)
Credit losses expensed	(3)	(2)
Credit losses deferred (note 8)	-	4
Write-offs, net of recoveries	3	3
End of year	(9)	(9)

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5. INVENTORIES

<i>(\$ millions)</i>	2022	2021
Gas in storage	117	71
Materials and supplies	4	3
Total inventories	121	74

6. PROPERTY, PLANT AND EQUIPMENT

December 31, 2022	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
<i>(\$ millions)</i>				
Natural gas transmission systems	2,049	(666)	1,383	2.0%
Natural gas distribution systems	4,755	(1,502)	3,253	2.4%
Liquefied natural gas plant and equipment	792	(154)	638	2.4%
Plant, buildings and equipment	402	(162)	240	7.0%
Land	72	-	72	-
Assets under construction	253	-	253	-
Total property, plant and equipment	8,323	(2,484)	5,839	

December 31, 2021	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
<i>(\$ millions)</i>				
Natural gas transmission systems	1,918	(638)	1,280	2.0%
Natural gas distribution systems	4,386	(1,407)	2,979	2.4%
Liquefied natural gas plant and equipment	785	(137)	648	2.4%
Plant, buildings and equipment	392	(153)	239	6.9%
Land	72	-	72	-
Assets under construction	262	-	262	-
Total property, plant and equipment	7,815	(2,335)	5,480	

As allowed by the BCUC, during the year ended December 31, 2022 the Corporation capitalized a debt component of AFUDC of \$8 million (December 31, 2021 - \$4 million) and an equity component of AFUDC of \$13 million (December 31, 2021 - \$7 million), and approved capitalized overhead costs of \$53 million (December 31, 2021 - \$53 million).

Depreciation of property, plant and equipment, including a net salvage provision, for the year ended December 31, 2022 totaled \$246 million (December 31, 2021 - \$238 million).

Included in the book value of plant, buildings and equipment are vehicle and equipment finance leases of \$2 million (December 31, 2021 - \$2 million).

FortisBC Energy Inc.
Notes to the Consolidated Financial Statements
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7. INTANGIBLE ASSETS

December 31, 2022	Cost	Accumulated Amortization	Book Value
<i>(\$ millions)</i>			
Software	99	(35)	64
Land rights	59	-	59
Other	3	(2)	1
Assets under construction	2	-	2
Total intangible assets	163	(37)	126

December 31, 2021	Cost	Accumulated Amortization	Book Value
<i>(\$ millions)</i>			
Software	91	(39)	52
Land rights	59	-	59
Other	4	(3)	1
Assets under construction	11	-	11
Total intangible assets	165	(42)	123

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

Amortization of intangible assets for the year ended December 31, 2022 totaled \$14 million (December 31, 2021 - \$13 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 14.3 per cent (2021 - 14.5 per cent). Amortization of other intangible assets is recorded on a straight-line basis using an average amortization rate of 1.5 per cent (2021 - 1.5 per cent).

Included in the cost of land rights at December 31, 2022 was \$59 million (December 31, 2021 - \$59 million) not subject to amortization.

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

<i>(\$ millions)</i>	
2023	14
2024	13
2025	11
2026	9
2027	7

FortisBC Energy Inc.
Notes to the Consolidated Financial Statements
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8. REGULATORY ASSETS AND LIABILITIES

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

<i>(\$ millions)</i>	2022	2021	Remaining Refundable Period (Years)
Regulatory assets			
Regulated asset for deferred income taxes (i)	669	671	Ongoing
Demand side management program (ii)	301	254	10
Pension and OPEB unrecognized actuarial losses and past service costs (note 16) (iii)	-	107	Ongoing
Fair value of derivative instruments ¹ (note 22) (iv)	60	-	Ongoing
Rate stabilization accounts (v)	60	51	1-2
Biomethane variances (vi)	33	11	1
Business development deposit ¹ (vii)	30	18	Ongoing
Greenhouse gas reductions regulation incentives (viii)	24	32	10
Flow-through variances (ix)	20	15	1
Income taxes recoverable on OPEBs (x)	18	18	Ongoing
Deferred development costs for capital projects (xi)	15	17	8
Pension and OPEB cost variance (xii)	14	3	3
Book value after removal of utility capital assets (xiii)	5	9	2
Deferred interest (xiv)	2	-	1-3
Other recoverable costs (xv)	9	7	Various
Total regulatory assets	1,260	1,213	
Less: current portion	220	133	
Long-term portion of regulatory assets	1,040	1,080	

¹ Balance included in other recoverable costs for the year ended December 31, 2021.

<i>(\$ millions)</i>	2022	2021	Remaining Refundable Period (Years)
Regulatory liabilities			
Net salvage provision (xvi)	219	181	Ongoing
Rate stabilization accounts (v)	201	40	1-2
Pension and OPEB unrecognized actuarial gains and past service costs (note 16) (iii)	61	-	Ongoing
Emissions regulations (xvii)	27	3	1
Clean growth innovation fund (xviii)	7	4	2
Earnings Sharing Mechanism (xix)	4	2	1
Deferred interest (xiv)	3	2	1-3
Other refundable costs (xv)	2	4	Various
Total regulatory liabilities	524	236	
Less: current portion	108	26	
Long-term portion of regulatory liabilities	416	210	

Net amortization expense of regulatory assets and liabilities, excluding a net salvage provision, for the year ended December 31, 2022 totaled \$42 million (December 31, 2021 - \$34 million).

FortisBC Energy Inc.
Notes to the Consolidated Financial Statements
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8. REGULATORY ASSETS AND LIABILITIES (continued)

(i) Regulated Asset for Deferred Income Taxes

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

The regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable.

(ii) Demand Side Management Program

The Corporation funds incentives and provides energy management services to promote efficiency programs for its customers. As approved by the BCUC, the Corporation recovers these costs in rates over a 10-year period.

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

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

(iv) Fair Value of Derivative Instruments

Unrealized gains or losses associated with changes in the fair value of certain derivative instruments are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates. These unrealized losses and gains would otherwise be recognized in earnings. This regulatory asset balance is not subject to a regulatory return.

(v) Rate Stabilization Accounts

There are two primary deferral mechanisms in place to decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the impacts of weather and other changes on use rates.

The first mechanism relates to the recovery of all gas supply costs through deferral accounts that capture variances (overages and shortfalls) from forecasts in costs incurred and amounts recovered through rates. Balances to be either refunded to or recovered from customers are determined via quarterly application and review by the BCUC. Currently under this mechanism, there are two separate deferral accounts: the Commodity Cost Reconciliation Account ("CCRA") and the Midstream Cost Reconciliation Account ("MCRA").

The second mechanism seeks to stabilize delivery revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism ("RSAM").

The RSAM, MCRA and CCRA accounts are either refunded to or recovered from customers in rates within 2 years with actual refunds or recoveries dependent upon approved rates and actual gas consumption volumes.

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

The classification of the rate stabilization accounts as at December 31 are as follows:

<i>(\$ millions)</i>	2022	2021
Current assets		
CCRA	30	50
RSAM	-	1
Total current assets	30	51
Long-term assets		
CCRA	30	-
Total long-term assets	30	-
Total assets	60	51
Current liabilities		
MCRA	(59)	(22)
RSAM	(21)	-
Total current liabilities	(80)	(22)
Long-term liabilities		
MCRA	(92)	(7)
RSAM	(29)	(11)
Total long-term liabilities	(121)	(18)
Total liabilities	(201)	(40)

(vi) Biomethane Variances

Captures the differences between the costs incurred to procure and process consumable Biomethane gas, including any unsold biomethane inventory, and the revenues collected through the Biomethane energy recovery component of rates, with the difference either refunded to or recovered from customers in rates within one year, with actual refunds or recoveries dependent upon approved rates and actual gas consumption volumes.

(vii) Business Development Deposit

This account relates to the recognition of temporary tax impacts associated with the receipt of deposits on future development expenditures to be incurred for the Eagle Mountain Woodfibre Gas Pipeline project. This regulatory asset balance is not subject to a regulatory return.

(viii) Greenhouse Gas Reductions Regulation Incentives

The Greenhouse Gas Reductions (Clean Energy) Regulation ("GGRR") incentives deferral is comprised of expenditures to support the growth and development of Compressed Natural Gas and Liquefied Natural Gas markets. The regulatory deferral includes subsidy payments made available to assist customers to purchase natural gas vehicles in lieu of vehicles fueled by diesel, switch to natural gas from diesel for power generation, upgrade equipment to be able to maintain the natural gas equipment and perform feasibility studies and administer the program, all as part of the incentive program funding pursuant to the GGRR under the Clean Energy Act. The BCUC has approved recovery of these costs in rates over a 10-year period.

(ix) Flow-through Variances

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

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

(x) Income Taxes Recoverable on OPEBs

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

(xi) Deferred Development Costs for Capital Projects

Deferred development costs for capital projects include costs for projects under development that are included in regulated rate base or are anticipated to be recorded in regulated rate base in the future. The BCUC has approved the recovery of certain development costs in rates over a 5 to 20-year period, while the recovery of other development costs is still subject to regulatory review and approval of disposition.

(xii) Pension and OPEB Cost Variance

As approved by the BCUC, the pension and OPEB cost variance account accumulates differences between pension and OPEB expenses that are approved for recovery in rates and the actuarially determined pension and OPEB expense. The BCUC approved the recovery or refund of these variances in rates over a 3-year period.

(xiii) Book Value After Removal of Utility Capital Assets

The remaining book value after the removal of utility capital assets (property, plant and equipment) is a regulatory deferral account that accumulated such balances for 2010 to 2013 and subsequently recovered them from customers through amortization of regulatory assets. In 2014, the BCUC approved the recovery of these costs in rates over a 10-year period.

Subsequent to 2014, FEI records the book value after the removal of property, plant and equipment and intangible assets to accumulated depreciation, which will be reflected in future depreciation expense when refunded or collected in rates.

(xiv) Deferred Interest

The deferred interest is the interest calculated on the difference between the actual and forecasted average balance of the rate stabilization accounts and gas in storage multiplied by the composite interest rate. Amounts are returned to, or recovered from, customers over the same period as the underlying rate stabilization accounts and over 3 years for the gas in storage deferred interest.

(xv) Other Recoverable and Refundable Costs

Regulatory assets and liabilities that have been aggregated in the tables above as other items relate to smaller deferral accounts. These accounts have either been approved by the BCUC for recovery from or refund to customers or are expected to be approved. The approved amounts are being amortized over various periods depending on the nature of the costs. Included in other recoverable costs is the COVID-19 Customer Recovery Fund deferral account, which captures the otherwise uncollectible revenues associated with providing certain deferral and relief offerings to the Corporation's customers during the COVID-19 pandemic.

(xvi) Net Salvage Provision

The net salvage provision account captures the provision for costs which will be incurred to remove assets from service either through actual removal of the asset or through disconnection from the transmission or distribution system. As actual removal costs are incurred, the net salvage provision account is drawn down. For the year ended December 31, 2022, approximately \$57 million (December 31, 2021 - \$55 million) was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the year ended December 31, 2022 were \$19 million (December 31, 2021 - \$20 million).

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

(xvii) Emissions Regulations

As approved by the BCUC, the emissions regulations deferral account captures revenues collected from the sale of credits related to Emissions Regulations, particularly the BC Low Carbon Fuel Standard, which are aimed to reduce Greenhouse Gas (“GHG”) emissions in BC, and any compliance costs associated with the revenue collection. The BCUC approved the refund of these revenues in rates over a 1-year period effective 2023. Previously this deferral account was approved to be refunded to customers in rates over a 5-year period.

(xviii) Clean Growth Innovation Fund

As approved by the BCUC, the Clean Growth Innovation Fund deferral account was established to explore clean energy innovation activities in an effort to reduce emissions and support the transition to a lower carbon future. This account captures the amounts collected from customers through rates during the MRP period offset by the costs incurred for the purposes of clean growth initiatives.

(xix) Earnings Sharing Mechanism

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

9. OTHER ASSETS

<i>(\$ millions)</i>	2022	2021
Pension assets (note 16)	8	4
Operating leases (note 13)	6	8
Credit facility issuance costs	1	1
Other assets	5	2
Total other assets	20	15

10. GOODWILL

On May 17, 2007, Fortis acquired all of the issued and outstanding shares of FHI. The consideration paid for this acquisition has been recorded in the Corporation’s financial statements using push-down accounting. In addition to goodwill of \$913 million (December 31, 2021 - \$913 million) for the excess of the purchase price paid by Fortis over the fair value of the net assets acquired, the Corporation has recognized additional paid-in capital related to the push-down of the acquisition accounting.

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

FortisBC Energy Inc.
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11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(\$ millions)</i>	2022	2021
Gas cost payable	157	120
Trade accounts payable	134	106
Business development deposit	111	66
Other taxes payable	86	65
Fair value of derivative instruments (note 22)	70	4
Customer deposits	63	54
Employee compensation and benefits payable	49	46
Income taxes payable	45	9
Interest payable	38	37
Other current liabilities	23	10
Amounts due to related parties (note 24)	6	7
Pension and OPEB liabilities (note 16)	4	4
Operating leases (note 13)	2	2
Total accounts payable and other current liabilities	788	530

12. LONG-TERM DEBT

<i>(\$ millions)</i>	2022	2021
Unsecured Debentures		
6.95% Series 11, due September 21, 2029	150	150
6.50% Series 18, due May 1, 2034	150	150
5.90% Series 19, due February 26, 2035	150	150
5.55% Series 21, due September 25, 2036	120	120
6.00% Series 22, due October 2, 2037	250	250
5.80% Series 23, due May 13, 2038	250	250
6.55% Series 24, due February 24, 2039	100	100
4.25% Series 25, due December 9, 2041	100	100
3.38% Series 26, due April 13, 2045	150	150
2.58% Series 27, due April 8, 2026	150	150
3.67% Series 28, due April 9, 2046	150	150
3.78% Series 29, due March 6, 2047	150	150
3.69% Series 30, due October 30, 2047	175	175
6.05% Series 2008, due February 15, 2038	250	250
5.20% Series 2010, due December 6, 2040	100	100
3.85% Series 31, due December 7, 2048	200	200
2.82% Series 32, due August 9, 2049	200	200
2.54% Series 33 under Green Bond Framework, due July 13, 2050	200	200
2.42% Series 34, due July 18, 2031	150	150
4.67% Series 35 under Green Bond Framework, due November 28, 2052	150	-
Total long-term debt	3,295	3,145
Less: debt issuance costs	22	22
Total long-term debt, net of debt issuance costs	3,273	3,123

Unsecured Debentures

On November 16, 2022, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note ("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.

FortisBC Energy Inc.
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12. LONG-TERM DEBT (continued)

On November 23, 2022, FEI entered into an agreement to issue \$150 million of MTN Debentures Series 35. The issuance is the second under FEI's Green Bond Framework, the first of which was in 2020. Net proceeds have been used to finance or refinance eligible projects under FEI's Green Bond Framework and were primarily allocated to energy efficiency, pollution prevention and control, and renewable natural gas categories. These MTN Debentures bear interest at a rate of 4.67 per cent to be paid semi-annually and mature on November 28, 2052. The closing of the issuance occurred on November 28, 2022.

As at December 31, 2022, \$650 million remains available under the MTN Debenture Program.

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

Certain of the Corporation's long-term debt obligations have issuance tests that prevent the Corporation from incurring additional long-term debt that include interest coverage ratios. In addition, the Corporation's credit facility agreements require maintenance of certain financial covenants such as a maximum percentage of debt to equity. As at December 31, 2022 and 2021, the Corporation was in compliance with these covenants.

See note 25 "Commitments" for required principal and interest payments for long-term debt over the next five years and thereafter.

13. LEASES

Finance Obligation

Between 2000 and 2005, the Corporation entered into arrangements whereby certain natural gas distribution assets were leased to certain municipalities and then leased back by the Corporation from the municipalities. The natural gas distribution assets are not accounted for as a sale-leaseback, and instead are accounted for as financing transactions. The proceeds from these transactions have been recorded as finance obligations. Lease payments made, less the portion considered to be interest expense, decrease the finance obligations. In October 2022, the Corporation exercised an early termination payment option in the amount of \$3 million on the last remaining financing obligation.

Finance Leases

FEI has finance leases related to vehicles and equipment.

Operating Leases

The Corporation leases office facilities with remaining terms of 1 to 15 years. Most leases include renewal options with renewal terms that may extend the lease term from 1 to 15 years. Certain lease agreements include rental payments adjusted periodically for inflation or require the payment of real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

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Notes to the Consolidated Financial Statements
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13. LEASES (continued)

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

<i>(\$ millions)</i>	Classification	2022	2021
Assets			
Long-term			
Operating leases	Other assets (note 9)	6	8
Finance leases	Property, plant and equipment, net (note 6)	2	2
Total lease assets		8	10
Liabilities			
Current			
Operating leases	Accounts payable and other current liabilities (note 11)	2	2
Finance leases	Current portion of finance leases and finance obligation	1	1
Long-term			
Operating leases	Other liabilities (note 14)	4	6
Finance leases	Finance leases and finance obligation	1	1
Total lease liabilities		8	10

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

<i>(\$ millions)</i>	2022	2021
Operating lease cost	2	2

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

<i>(\$ millions)</i>	Operating Leases	Finance Leases	Total
2023	2	1	3
2024	2	1	3
2025	1	-	1
2026	1	-	1
2027	-	-	-
Thereafter	-	-	-
Total operating and finance leases	6	2	8
Less: current portion	2	1	3
Long-term portion	4	1	5

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13. LEASES (continued)

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

Lease Term and Discount Rate	2022	2021
Weighted-average remaining lease term (years)		
Operating leases	4	4
Finance leases	2	2
Weighted-average discount rate (%)		
Operating leases	2.8%	2.7%
Finance leases	3.1%	3.0%
Other Information	2022	2021
<i>(\$ millions)</i>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	(2)	(2)
Supplementary non-cash information		
Right-of-use assets obtained in exchange for lease liabilities	-	6

In addition, the Corporation leases limited office facilities to others with remaining terms of 1 to 5 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term for 5 to 10 years. These leases are classified as operating leases and income received is recorded to other revenue. Lease revenue received for the year ended December 31, 2022, and lease payments to be received over the next five years and thereafter, are not material to these Consolidated Financial Statements.

14. OTHER LIABILITIES

<i>(\$ millions)</i>	2022	2021
Pension and OPEB liabilities (note 16)	97	249
Fair value of derivatives instruments (note 22)	37	-
Operating leases (note 13)	4	6
Other liabilities	-	2
Total other liabilities	138	257

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15. SHARE CAPITAL
Authorized Share Capital

The Corporation is authorized to issue 500,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

Common Shares

Issued and outstanding common shares are as follows:

	2022		2021	
	Number of Shares	Amount (\$ millions)	Number of Shares	Amount (\$ millions)
Outstanding, beginning of year	347,369,254	1,491	341,154,514	1,391
Issued	9,842,755	150	6,214,740	100
Outstanding, end of year	357,212,009	1,641	347,369,254	1,491

16. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. In addition to pensions, the Corporation also provides OPEBs, other than pensions for retired employees. The following is a summary of each type of plan.

Defined Benefit Pension Plans

The Corporation sponsors a number of defined benefit pension plans. Additionally, the Corporation has a number of closed plans which relate to service prior to 2007 by certain employees. Retirement benefits are based on employees' years of credited service and remuneration. Corporation contributions to the plans are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as at December 31, 2019 and 2021. The dates of the next required valuations as at December 31, 2022 and 2024, will be completed in 2023 and 2025, respectively.

Supplemental Plans

Certain employees are eligible to receive supplemental benefits. The supplemental plans provide pension benefits in excess of statutory limits. The supplemental plans are unfunded and certain plans are secured by letters of credit (note 23).

Other Post-Employment Benefits

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

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16. EMPLOYEE FUTURE BENEFITS (continued)

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

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Change in fair value of plan assets				
Balance, beginning of year	832	756	-	-
Actual (loss) return on plan assets	(74)	73	-	-
Employer contributions	15	15	2	2
Employee contributions	13	13	-	-
Benefits paid	(28)	(25)	(2)	(2)
Fair value, end of year	758	832	-	-
Change in projected benefit obligation				
Balance, beginning of year	961	905	120	134
Employee contributions	13	13	-	-
Current service cost	33	33	4	4
Interest costs	29	25	4	4
Benefits paid	(28)	(25)	(2)	(2)
Actuarial (gain) loss	(243)	10	(40)	(20)
Balance, end of year ¹	765	961	86	120
Unfunded status	(7)	(129)	(86)	(120)

¹ The accumulated benefit obligation for defined benefit pension plans, excluding assumptions about future salary levels, was \$670 million (December 31, 2021 - \$853 million).

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

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Other assets (note 9)	(8)	(4)	-	-
Accounts payable and other current liabilities (note 11)	1	1	3	3
Other liabilities (note 14)	14	132	83	117
Net liability	7	129	86	120

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16. EMPLOYEE FUTURE BENEFITS (continued)

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

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Service costs	33	33	4	4
Interest costs	29	25	4	4
Expected return on plan assets	(45)	(41)	-	-
Amortization of actuarial losses	4	9	-	-
Amortization of past service costs	(1)	(1)	-	-
Regulatory adjustment	(9)	(1)	-	-
Net benefit cost	11	24	8	8

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

Defined Benefit Pension Plan Assets

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

	Target Allocation	2022	2021
Equities	0-60%	41%	39%
Fixed income	30-100%	36%	40%
Real estate and infrastructure	0-30%	22%	18%
Private equity	0-5%	1%	3%
		100%	100%

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

The fair value measurements of the Corporation's defined benefit pension plan assets by fair value hierarchy level, which are described further in note 22, "Financial Instruments", are as follows as at December 31:

2022	Level 1	Level 2	Level 3	Total
<i>(\$ millions)</i>				
Cash	2	-	-	2
Equities	306	-	-	306
Fixed income	-	269	-	269
Real estate and infrastructure	-	-	170	170
Private equity	-	-	11	11
	308	269	181	758

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16. EMPLOYEE FUTURE BENEFITS (continued)

2021	Level 1	Level 2	Level 3	Total
<i>(\$ millions)</i>				
Cash	3	-	-	3
Equities	340	-	-	340
Fixed income	-	327	-	327
Real estate and infrastructure	-	-	150	150
Private equity	-	-	12	12
	343	327	162	832

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

<i>(\$ millions)</i>	2022	2021
Balance, beginning of year	162	143
Actual return on plan assets relating to assets still held at the reporting date	20	18
Purchases, sales and settlements	(1)	1
Balance, end of year	181	162

Significant Actuarial Assumptions

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Projected benefit obligation				
Discount rate as at December 31	5.25%	3.00%	5.25%	3.00%
Rate of compensation increases	3.00%	3.00%	-	-
Net benefit cost				
Discount rate as at January 1	3.00%	2.75%	3.00%	2.75%
Expected rate of return on plan assets	6.50%	5.70%	-	-
Health care cost trend rate as at December 31 ¹	-	-	5.00%	5.00%

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

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16. EMPLOYEE FUTURE BENEFITS (continued)

The following table provides the components and the changes of the regulatory asset during the year that would otherwise have been recognized in other comprehensive income and AOCI and have not yet been recognized as components of periodic net benefit cost. The Corporation's total unrecognized actuarial losses and past service costs for pension and OPEB that was recognized as a regulatory liability as at December 31, 2022 was \$61 million (a regulatory asset as at December 31, 2021 - \$107 million).

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2022	2021	2022	2021
Regulatory asset (liability), beginning of year	117	147	(10)	10
Net actuarial gains	(125)	(22)	(40)	(20)
Amortization of actuarial losses	(4)	(9)	-	-
Amortization of past service costs	1	1	-	-
Regulatory (liability) asset, end of year (note 8)	(11)	117	(50)	(10)

Funding Contributions

Under the terms of the defined benefit pension plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The Corporation's estimated 2023 contributions are \$14 million (2022 - \$15 million) for defined benefit pension plans and \$3 million (2022 - \$3 million) for OPEB plans.

Benefit Payments

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

<i>(\$ millions)</i>	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2023	33	3
2024	37	3
2025	40	4
2026	43	4
2027	45	4
2028-2032	257	25
Total	455	43

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17. REVENUE
Disaggregation of Revenue

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

<i>(\$ millions)</i>	2022	2021
Residential	1,182	941
Commercial	668	500
Industrial	147	110
Transportation	82	94
Total natural gas revenue	2,079	1,645
Other contract revenue ¹	2	3
Total revenue from contracts with customers	2,081	1,648
Alternative revenue ²	(34)	(6)
Other revenue ³	36	72
Total revenue	2,083	1,714

¹ Other contract revenue includes utility customer connection fees and agreements with certain customers to provide transportation of natural gas over utility owned infrastructure.

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

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

18. OTHER INCOME

<i>(\$ millions)</i>	2022	2021
Dividend income from FHI (note 24)	100	-
Equity component of AFUDC (note 6)	13	7
Net periodic pension and post-employment benefit cost	9	4
Interest income	1	1
Total other income	123	12

19. FINANCE CHARGES

<i>(\$ millions)</i>	2022	2021
Interest on long-term debt	147	147
Interest on short-term debt	7	1
Debt component of AFUDC (note 6)	(8)	(4)
Net interest on debt	146	144
Finance charges paid to FHI (note 24)	100	-
Total finance charges	246	144

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20. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<i>(\$ millions)</i>	2022	2021
Interest paid	152	146
Interest paid to FHI (note 24)	100	-
Net income tax paid (refunded)	16	(16)
Change in working capital		
Accounts receivable and other current assets	(201)	(20)
Inventories	(47)	(16)
Prepaid expenses	-	(1)
Accounts payable and other current liabilities	193	131
Total change in working capital	(55)	94

Non-Cash Investing Activities

<i>(\$ millions)</i>	2022	2021
As at December 31		
Accrued capital expenditures	54	59

21. INCOME TAXES

Deferred Income Tax

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

<i>(\$ millions)</i>	2022	2021
Deferred income tax liability (asset)		
Property, plant and equipment	696	641
Intangible assets	33	27
Regulatory assets	195	156
Regulatory liabilities	(172)	(88)
Employee future benefits	(36)	(32)
Other	(48)	(30)
Net deferred income tax liability	668	674

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

Provision for Income Taxes

<i>(\$ millions)</i>	2022	2021
Current income tax expense	15	30
Deferred income tax expense	(6)	57
Regulatory adjustment (note 8)	2	(41)
Deferred income tax expense, net of regulatory adjustment	(4)	16
Income tax expense	11	46

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21. INCOME TAXES (continued)
Variation in Effective Income Tax Rate

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

	2022	2021
Combined statutory income tax rate	27.0%	27.0%
<i>(\$ millions)</i>		
Statutory income tax rate applied to earnings before income taxes	65	62
Preference share dividends	(27)	-
Items capitalized for accounting but expensed for income tax purposes	(5)	(1)
Difference between capital cost allowance and amounts expensed for accounting purposes	(29)	(21)
Difference between employee future benefits paid and amounts expensed for accounting purposes	-	3
Difference between regulatory accounting items and amounts claimed for tax purposes	10	6
Other	(3)	(3)
Actual income tax expense	11	46
Effective income tax rate	4.6%	20.2%

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

22. FINANCIAL INSTRUMENTS

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

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

Recurring Fair Value Measures

The following table presents the fair value of assets and liabilities that are accounted for at fair value on a recurring basis as at December 31, all of which are Level 2 of the fair value hierarchy. Contracts that are “in the money” are included in accounts receivable and other current assets or in long-term other assets, and “out of the money” are included in accounts payable and other current liabilities or in long-term other liabilities.

<i>(\$ millions)</i>	2022	2021
Assets		
Current	47	4
Total assets	47	4
Liabilities		
Current	(70)	(4)
Long-term	(37)	-
Total liabilities	(107)	(4)
Total liabilities, net	(60)	-

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22. FINANCIAL INSTRUMENTS (continued)

The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions which are netted where the intent and legal right to offset exists. The following table presents the potential offset of counterparty netting.

<i>(\$ millions)</i>	Gross Amount Recognized on Balance Sheet	Counterparty Netting of Natural Gas Contracts	Cash Collateral Posted	Net Amount
As at December 31, 2022				
Accounts receivable and other current assets	47	(15)	28	60
Accounts payable and other current liabilities	(70)	15	-	(55)
Other liabilities	(37)	-	-	(37)
As at December 31, 2021				
Accounts receivable and other current assets	4	-	7	11
Accounts payable and other current liabilities	(4)	-	-	(4)

Derivative Instruments

The Corporation generally limits the use of derivative instruments to those that qualify as accounting or economic hedges, or those that are approved for regulatory recovery. The Corporation records all derivative instruments at fair value, with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception.

FEI enters into physical natural gas supply contracts and financial commodity swaps to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. Swap contracts are agreements between two parties to exchange streams of payments over time according to specified terms. Swap contracts require receipt of payment for the notional quantity of the commodity based on the difference between a fixed price and the market price on the settlement date. The fair value of the natural gas derivatives is calculated using the present value of cash flows based on published market prices and forward curves for natural gas.

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at December 31, 2022, natural gas contract derivatives are not designated as hedges and any unrealized losses and gains arising from changes in fair value of these contracts are 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:

<i>(\$ millions)</i>	2022	2021
Unrealized net loss recorded to current regulatory assets	60	-

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.

Volume of Derivative Activity

As at December 31, 2022, the Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2025. The volumes related to these natural gas derivatives are outlined below:

<i>(petajoules)</i>	2022	2021
Natural gas physically-settled supply contracts	148	144
Natural gas financially-settled commodity swaps	51	2

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22. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Not Carried At Fair Value

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

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

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

(\$ millions)	Fair Value Hierarchy	2022		2021	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	3,295	3,101	3,145	3,817

23. CREDIT FACILITIES

As at December 31, 2022, the Corporation had a \$700 million syndicated operating credit facility in place, which matures in July 2027, and a \$55 million uncommitted letter of credit facility in place which matures in March 2024.

The weighted average interest rate on borrowings under the Corporation's operating credit facility at December 31, 2022, was approximately 4.31 per cent (December 31, 2021 – 0.14 per cent).

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

(\$ millions)	2022	2021
Operating credit facility	700	700
Letter of credit facility	55	55
Draws on operating credit facility	(203)	(242)
Letters of credit outstanding	(54)	(42)
Credit facilities available	498	471

In December 2022, FEI executed an amendment to its operating credit facility to incorporate a Sustainability Linked Loan ("SLL") component. The SLL will incorporate sustainability performance targets considering avoided emissions from renewable gas and capital project opportunities with Indigenous participation. The amendment to the credit facility has been approved by the BCUC.

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24. 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 FortisBC Inc. ("FBC") and Aitken Creek Gas Storage ULC ("ACGS"), in financing transactions and to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

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

<i>(\$ millions)</i>	2022	2021
Other income received from FHI (a)	100	-
Operation and maintenance expense charged to FBC (b)	8	7
Operation and maintenance expense charged to FHI (c)	1	1
Operation and maintenance expense charged to ACGS (d)	1	1
Total related party recoveries	110	9

- (a) The Corporation received dividend income from FHI relating to a \$3,000 million (2021 - \$nil) investment in preferred shares, as part of a tax loss utilization plan ("TLUP") implemented in the second quarter of 2022.
- (b) The Corporation charged FBC for natural gas sales, office rent, management services and other labour.
- (c) The Corporation charged FHI for office rent, management services and other labour.
- (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 for the years ended December 31 were as follows:

<i>(\$ millions)</i>	2022	2021
Finance charges paid to FHI (a)	100	-
Gas storage and purchases charged by ACGS (b)	37	38
Operation and maintenance expense charged by FHI (c)	13	12
Operation and maintenance expense charged by FBC (d)	7	6
Total related party costs	157	56

- (a) FHI charged the Corporation interest on \$3,000 million (2021 - \$nil) of intercompany subordinated debt, as part of a TLUP implemented in the second quarter of 2022.
- (b) ACGS charged the Corporation for the lease of natural gas storage capacity and natural gas purchases.
- (c) FHI charged the Corporation for corporate management services and governance costs.
- (d) FBC charged the Corporation for electricity purchases, management services, and other labour.

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24. RELATED PARTY TRANSACTIONS (continued)
Balance Sheet Amounts

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

<i>(\$ millions)</i>	2022		2021	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
ACGS	-	(4)	-	(5)
FHI	-	(2)	-	(2)
FBC	-	-	1	-
Total (due to) due from related parties	-	(6)	1	(7)

25. COMMITMENTS

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

As at December 31, 2022	Total	Due within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due after 5 Years
<i>(\$ millions)</i>							
Long-term debt ¹ (note 12)	3,295	-	-	-	150	-	3,145
Interest obligations on long-term debt (note 12)	2,647	152	152	152	150	148	1,893
Gas purchase obligations (a)	4,791	757	368	346	296	260	2,764
Other (b)	25	18	4	2	1	-	-
Total	10,758	927	524	500	597	408	7,802

¹ Excludes unamortized debt issuance costs.

(a) The Corporation enters into contracts to purchase natural gas, renewable gas, and natural gas transportation and storage services from various suppliers. These contracts are used to ensure that there is an adequate supply of natural gas and renewable gas to meet the needs of customers and to minimize exposure to market price fluctuations. The natural gas purchase obligations are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at December 31, 2022.

The renewable gas supply obligations disclosed reflect the contracted price per GJ between the Corporation and the suppliers. During 2022, FEI entered into certain long-term supply agreements to acquire renewable gas over a 20-year period from a portfolio of landfill sites and from an anaerobic digester facility, up to a combined maximum annual volume of 9.3 petajoules. Both agreements were approved by the BCUC.

(b) Included in other commitments are building and vehicle leases, and defined benefit pension plan funding obligations.

In addition to the items in the table above, the Corporation has issued commitment letters to customers who may meet the criteria to obtain Demand Side Management ("DSM") funding under the DSM Expenditures Plan approved by the BCUC. As at December 31, 2022, the Corporation had issued \$14 million (December 31, 2021 - \$16 million) of commitment letters to these customers.

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25. COMMITMENTS (continued)

In January 2012, two unrelated parties collectively purchased a 15 per cent equity interest in the MHLP, which at the time was a wholly owned limited partnership of the Corporation. These non-controlling interest owners hold a put option which, if exercised, would oblige the Corporation to purchase the non-controlling interest owners' 15 per cent voting share in MHLP for cash. For rate-making purposes, these non-controlling interests are considered equity and if FEI was required to purchase these non-controlling interests, FEI would fund the transaction with an equity issuance. Accordingly, the Corporation has presented these redeemable non-controlling interests as equity.

26. GUARANTEES

The Corporation had letters of credit outstanding at December 31, 2022 totaling \$54 million (December 31, 2021 - \$42 million) primarily to support the funding of one of the Corporation's pension plans and have been applied against FEI's \$55 million uncommitted letter of credit facility.