FORTIS BC

FORTISBC INC.

MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2019

February 12, 2020

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

In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., WELP refers to the Waneta Expansion Limited Partnership which Fortis owned a 51 per cent of during 2018 and a part of 2019, FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc. During April 2019, Fortis completed the sale of its 51 per cent interest in WELP to parties not related to Fortis.

FORWARD-LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expected costs for the Corra Linn Dam Spillway Gates Replacement Project, the Upper Bonnington Old Unit Refurbishment Project, and their associated completion dates; expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from its parent FortisBC Pacific, and debenture issuances; the Corporation's estimated contractual obligations; and expectations regarding the timing of the BCUC's decision on the Corporation's Multi-year Rate Plan ("MRP") Application.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of climate change impacts on electricity consumption patterns; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; no adverse affect of the Indigenous peoples' settlement process on the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain a skilled workforce; absence of information technology infrastructure failure; absence of cyber-security failure; continued electricity demand; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; continued population growth and new housing starts; the availability of power supply; and no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; climate change risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks related to Indigenous rights and engagement; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk;

cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competitiveness and commodity price risk; power purchase and capacity sale contracts risk; electricity supply and weather related risks; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

CORPORATE OVERVIEW

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 178,700 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity. The Corporation's business includes four hydroelectric generating plants, approximately 7,300 kilometers of transmission and distribution power lines, and an historical peak demand of 746 MW.

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, and financing.

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

REGULATION

Customer Rates and Deferral Mechanisms

The Corporation's customer rates are based on estimates and forecasts. In order to manage the risk of forecast error associated with some of these estimates and to manage volatility in rates, a number of regulatory deferral accounts are in place.

Variances from regulated forecasts used to set rates for electricity revenue and power purchase costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings in either 2019 or 2018. As part of the 2014 Performance Based Ratemaking ("PBR") Application decision received in September 2014 and effective through to the end of 2019, the Corporation had a flow-through deferral account that captured variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flowed those variances through customer rates in the following year.

Performance Based Ratemaking Plan for 2014 to 2019 ("2014 PBR Application")

In September 2014, the BCUC issued its decision on FBC's 2014 PBR Application. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.03 per cent each year. The PBR Plan also includes a 50/50 sharing of variances ("Earnings Sharing Mechanism") from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FBC maintains service levels. It also sets out the requirements for an annual review process which provides a forum for discussion between FBC and interested parties regarding its current performance and future activities.

In July 2018, the BCUC approved FBC's 2018 interim rates on a permanent basis. The rates decision resulted in a 2018 average rate base of approximately $1,321 million and no increase to customer rates. 2018 rates would have otherwise increased had there not been approval to defer a revenue deficiency for the year, which will be recovered from customers in future rates.

In April 2019, the BCUC approved FBC's 2019 interim rates on a permanent basis. The rates decision resulted in a 2019 average rate base of approximately $1,342 million and no increase to rates. 2019 rates would have otherwise decreased had there not been approval to defer a revenue surplus for the year, which will be refunded to customers in future rates.

In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return through an allowance for funds used during construction ("AFUDC").

Multi-Year Rate Plan for 2020 to 2024

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

In November 2019, the BCUC approved a rate increase of 1.0 per cent over 2019 rates pursuant to the MRP, on an interim and refundable basis, effective January 1, 2020. Interim rates will remain in place pending a final determination on 2020 rates by the BCUC.

Cost of Service Analysis and Rate Design

In February 2019, the BCUC approved FBC's request to return to a single, flat rate for its residential electricity customers over a period of five years instead of the two-tiered rate, also known as the residential conservation rate, that was put in place in 2012. The first part of the phase-in period began July 1, 2019, and will gradually reduce the higher tier rate and increase the lower tier rate until a single, flat rate is established by 2023. These changes have no impact to net earnings or total revenues.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year		
Periods Ended December 31	**2019**	2018	Variance	**2019**	2018	Variance
Electricity sales (GWh)	**888**	839	**49**	**3,326**	3,250	**76**
($ millions)						
Revenue	**109**	107	**2**	**404**	391	**13**
Power purchase costs	**37**	40	**(3)**	**121**	135	**(14)**
Operating costs	**24**	25	**(1)**	**81**	80	**1**
Property and other taxes	**5**	4	**1**	**17**	16	**1**
Depreciation and amortization	**16**	16	**-**	**62**	61	**1**
Total expenses	**82**	85	**(3)**	**281**	292	**(11)**
Operating income	**27**	22	**5**	**123**	99	**24**
Add: Other income	**2**	1	**1**	**4**	3	**1**
Less: Finance charges	**18**	10	**8**	**72**	40	**32**
Earnings before income taxes	**11**	13	**(2)**	**55**	62	**(7)**
Income tax expense	**-**	1	**(1)**	**5**	12	**(7)**
Net earnings	**11**	12	**(1)**	**50**	50	**-**

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the three months ended December 31, 2019 as compared to December 31, 2018:

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**(1)**	The decrease was primarily due to lower interest savings, partially offset by higher investment in regulated assets. Both 2019 and 2018 net earnings are based on an allowed return on equity of 9.15 per cent and a deemed equity component of capital structure of 40 per cent.

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Revenue	**2**	The increase in revenue was primarily due to: • an increase in revenues approved for rate-setting purposes resulting from higher forecasted customer loads, partially offset by • a decrease in revenues associated with third party contract work, • a decrease in surplus power sales, and • $1 million in revenue surplus deferred as a result of the BCUC approval to not increase FBC's 2019 customer rates, and instead defer the revenue surplus for the year to be refunded to customers in future rates. The higher electricity sales volumes compared to the same period in 2018 was primarily due to higher average residential consumption as a result of warmer weather conditions in the fourth quarter of 2018 that impacted heating loads in the comparative period, and higher industrial and commercial customer load during the fourth quarter of 2019. Variances between revenues associated with actual consumption and those revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenues, resulting in no net impact on total revenues compared to what is approved in rates.
Power purchase costs	**(3)**	As a result of adopting Accounting Standards Codification ("ASC") 842, effective January 1, 2019, power purchase costs in the amount of $7 million for the fourth quarter of 2019, which relate to the Brilliant Power Purchase Agreement ("BPPA") finance lease, have been reclassified to finance charges. The offsetting $4 million increase in power purchase costs was primarily due to higher purchase volumes, driven by an increase in electricity sales, and higher average power purchase prices compared to the fourth quarter of 2018.
Finance charges	**8**	As a result of adopting ASC 842, interest on finance leases related to the BPPA and the Brilliant Terminal Station ("BTS") have been reclassified from power purchase costs and operating costs, respectively, which increased finance charges by $8 million for the fourth quarter of 2019. All other finance charges were consistent with the same period in 2018.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the twelve months ended December 31, 2019 as compared to December 31, 2018:

Year		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**-**	Net earnings were comparable as earnings from higher investment in regulated assets during 2019 was offset by higher interest expense and operating costs not recovered in rates.
Revenue	**13**	The increase in revenue was primarily due to: • an increase in revenues approved for rate-setting purposes resulting from higher forecasted customer loads, and • an increase in revenues associated with third party contract work, partially offset by • a decrease in surplus power sales, and • $6 million in revenue surplus deferred as a result of the BCUC approval to not increase FBC's 2019 customer rates, and instead defer the revenue surplus for the year to be refunded to customers in future rates. Electricity sales volumes were higher primarily due to increased consumption by industrial customers. Variances between revenues associated with actual consumption and revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenues, resulting in no net impact on total revenues compared to what is approved in rates.

Year		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Power purchase costs	**(14)**	As a result of adopting ASC 842, power purchase costs in the amount of $29 million for the twelve months ended December 31, 2019, which relate to the BPPA finance lease, have been reclassified to finance charges. The offsetting $15 million increase in power purchase costs was primarily due to higher purchase volumes, driven by an increase in electricity sales, and higher average power purchase prices compared to the same period in 2018.
Finance charges	**32**	As a result of adopting ASC 842, interest on finance leases related to the BPPA and the BTS have been reclassified from power purchase costs and operating costs, respectively, which had an impact of increasing finance charges by $32 million for the twelve months ended December 31, 2019. All other finance charges were consistent with the same period in 2018.
Income tax expense	**(7)**	The decrease was primarily due to lower earnings before income taxes and higher deductible temporary differences arising from regulatory deferral accounts and property, plant, and equipment. The higher deductions associated with property, plant and equipment are a result of the June 2019 enactment of new enhanced Capital Cost Allowance ("CCA") rules.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2018 through December 31, 2019. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Revenue**	**Net Earnings**
($ millions)		
December 31, 2019	109	11
September 30, 2019	95	10
June 30, 2019	87	15
March 31, 2019	113	14
December 31, 2018	107	12
September 30, 2018	92	10
June 30, 2018	84	15
March 31, 2018	108	13

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. The operations generally produce higher net earnings in the second quarter due to the timing of power purchases, lower net earnings in the third quarter and higher net earnings in the first and fourth quarters due to increased customer load as a result of cooler weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result, interim net earnings are not indicative of net earnings on an annual basis.

December 2019/2018 – Net earnings decreased primarily due to lower interest savings, partially offset by higher investment in regulated assets.

September 2019/2018 - Net earnings were consistent with net earnings in the same period of 2018.

June 2019/2018 - Net earnings were consistent with net earnings in the same period of 2018.

March 2019/2018 – Net earnings were higher primarily due to higher investment in regulated assets and higher operation and maintenance expense savings for the quarter, net of the regulated Earnings Sharing Mechanism.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Financial Position between December 31, 2019 and December 31, 2018:

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
Regulatory assets (current and long-term)	**35**	The increase was primarily due to the recognition of $6 million relating to the BPPA asset and obligation under capital lease, an increase of $16 million in regulated deferred income tax liabilities and a $12 million increase in unrecognized actuarial losses and past service costs for pensions and other post-employment benefits ("OPEB"), the offsets all of which were deferred as regulatory assets.
Property, plant and equipment, net	**44**	The increase was primarily due to capital expenditures of $99 million incurred during the twelve months ended December 31, 2019, which includes sustainment and growth capital, as well as the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, a $3 million increase in accrued capital expenditures, and $1 million in equity AFUDC, partially offset by: • depreciation expense, excluding net salvage provision, of $40 million, • decrease in finance lease assets of $3 million due to depreciation, the offset of which has been recognized in regulatory assets, • costs of removal of $6 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and • contributions in aid of construction of $10 million.
Due to parent company	**60**	The increase was due to borrowings from Fortis during the fourth quarter of 2019, the proceeds from which were used to pay down the Corporation's credit facilities that are used to finance the debt portion of the 2019 capital expenditure program.
Deferred income taxes	**17**	The increase was primarily due to higher deductible temporary differences associated with property, plant and equipment, that includes $4 million resulting from the June 2019 enactment of new enhanced "CCA rules and higher net deductible temporary differences in regulatory deferral accounts.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Years Ended December 31	**2019**	2018	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**92**	128	(36)
Investing activities	**(103)**	(98)	(5)
Financing activities	**11**	(30)	41
Net change in cash	**-**	-	-

Operating Activities

Cash provided by operating activities was $36 million lower compared to the same period in 2018. The decrease was primarily due to changes in non-cash working capital relating to accounts payable and other current liabilities, and changes in regulatory assets and liabilities.

Investing Activities

Cash used for investing activities was $5 million higher compared to the same period in 2018 primarily due to higher investment in Demand Side Management ("DSM") expenditures and lower contributions in aid of construction received.

Financing Activities

Cash provided by financing activities was $11 million, as compared to $30 million of cash used for financing activities in the same period in 2018. This $41 million increase in cash was primarily due to $60 million in proceeds received from a demand loan with the Corporation's ultimate parent, Fortis, which were used in part to repay existing credit facilities.

During 2019, FBC paid common share dividends of $45 million (2018 - $44 million) to its parent company, FortisBC Pacific.

Contractual Obligations

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

As at December 31, 2019	Total	Due Within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due After 5 Years
($ millions)							
Power purchase obligations (a)	2,971	107	92	87	85	83	2,517
Finance lease obligations (b)	1,246	32	32	33	33	33	1,083
Interest obligations on long-term debt	834	35	38	36	36	34	655
Long-term debt [1]	735	-	25	-	25	-	685
Other (c)	9	7	1	1	-	-	-
Totals	5,795	181	188	157	179	150	4,940

[1] Excludes unamortized debt issuance costs.

(a) Power purchase obligations of FBC include:

- Waneta Expansion Capacity Agreement ("WECA"): In 2010, FBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The WECA, which was accepted by the BCUC in May 2012, allows FBC to purchase capacity over 40 years, beginning April 1, 2015. Up until April 16, 2019, the Waneta Expansion was owned by a limited partnership, the limited partners of which were FBC's ultimate parent, Fortis, which owned a 51 per cent interest, and a wholly-owned subsidiary of each of Columbia Power Corporation ("CPC") and Columbia Basin Trust ("CBT"). During January 2019, Fortis announced the sale of its 51 per cent interest to CPC and CBT. The transaction closed April 16, 2019.
- BCH Power Purchase Agreement ("BCH PPA"): In 2013, FBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20 year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014. The capacity and energy to be purchased under this agreement do not relate to a specific plant. The BCH PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative.
- Capacity and Energy Purchase and Sale Agreement ("CEPSA"): In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex which was accepted by the BCUC in April 2015. As at December 31, 2019, the total power purchase obligations outstanding under the CEPSA were approximately $14 million through to the first quarter of 2021. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.
- Brilliant Expansion Capacity and Energy Purchase Agreement: In 2017, FortisBC renewed an agreement to purchase capacity and energy from CPC, acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

(b) Finance lease obligations, which are inclusive of principal payments and imputed interest, are as follows:

- In 1996 an order was granted by the BCUC approving the 60-year BPPA for the sale of the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by the CPC and the CBT. FBC operates and maintains the Brilliant plant for the BPC in return for a management fee. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, which are both subject to fixed annual escalators, as well as sustaining capital charges. The BPPA includes a market related price

adjustment after 30 years of the 60-year term. FBC has accounted for this arrangement as a finance lease asset and obligation in its financial statements and, as a result of adopting ASC 842 recognizes the payments, as approved for setting customer rates, within depreciation and finance charges.

- In 2003, the Corporation began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056. The agreement provides that FBC pay a charge related to the recovery of the capital cost of the BTS. FBC has accounted for this arrangement as a finance lease asset and obligation in its financial statements and, as a result of adopting ASC 842 recognizes the payments, as approved for setting customer rates, within depreciation and finance charges.

(c) Included in other contractual obligations are building leases, vehicle leases, defined benefit pension plan funding obligations, and an asset retirement obligation.

In addition to the items in the table above, the Corporation has issued commitment letters to customers who may meet the criteria to obtain energy efficiency funding under the DSM Program approved by the BCUC. As at December 31, 2019, the Corporation had issued $2 million (2018 - $2 million) of commitment letters to these customers.

Capital Structure

The Corporation's principal business of regulated electricity generation, transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed regulatory capital structure approved by the BCUC at 40 per cent equity and 60 per cent debt. This capital structure excludes the financing of goodwill and other non-regulated items that do not impact the deemed capital structure.

Credit Ratings

Debentures issued by the Corporation are rated by DBRS Morningstar and Moody's Investors Service ("Moody's"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at December 31, 2019.

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	A (low)	Secured and Unsecured Debentures	Stable
Moody's	Baa1	Unsecured Debentures	Stable

During 2019, DBRS Morningstar and Moody's issued updated credit rating reports confirming the Corporation's debenture rating and outlook.

Projected Capital Expenditures

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

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

The 2020 projected capital expenditures are approximately $140 million, inclusive of AFUDC and excluding customer contributions in aid of construction, and are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. Included in these projected capital expenditures are more significant projects further described below.

Corra Linn Dam Spillway Gates Replacement

In 2017, the BCUC approved a CPCN application for the construction and operation of 14 replacement spillway gates and upgrades to the associated structures at the Corra Linn Dam in order to align with industry standards, meet current regulation and minimize the risks to public and employee safety. Construction commenced in 2017 with an estimated completion date of 2022 and total project costs of approximately $68 million.

Upper Bonnington Old Unit Refurbishment

In 2017, the BCUC approved a special projects application for the refurbishment of Upper Bonnington generating units in order to extend their life and reduce safety and environmental risks associated with the potential failures of the aged equipment. Construction commenced in 2017 with an estimated completion date of 2021 and total project costs of approximately $34 million.

Cash Flow Requirements

The Corporation's cash flow requirements fluctuate seasonally based on electricity consumption. The Corporation maintains adequate committed credit facilities.

It is expected that operating expenses and interest costs will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and/or dividend payments. Cash required to complete capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, equity injections from FortisBC Pacific, and debenture issuances.

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

Credit Facilities

As at December 31, 2019, the Corporation had bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. The $150 million operating credit facility matures in April 2024.

($ millions)	**2019**	2018
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(62)**	(66)
Draws on overdraft facility	**(3)**	(2)
Letters of credit outstanding	**(2)**	(1)
Credit facilities available	**93**	91

In addition to the above, during the fourth quarter of 2019 the Corporation borrowed $60 million (2018 - $nil) from its ultimate parent, Fortis. These demand loans are unsecured, due on demand, and carry interest equivalent to what the Corporation would pay when drawing on its operating credit facility. The proceeds from the demand loans were used to pay down the Corporation's credit facilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2019, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $2 million (2018 - $1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, its ultimate parent, Fortis, and other related companies under common control, including FEI, FHI and WELP, to provide or receive services, materials, and power purchases under the WECA. WELP ceased to be a related party to the Corporation as of April 16, 2019. The following transactions were measured at the exchange amounts unless otherwise indicated.

Related Party Recoveries

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

($ millions)	**2019**	2018
Operating costs charged to FortisBC Pacific (a)	**7**	7
Electricity revenue recovered from FEI (b)	**1**	1
Operating costs charged to FEI (b)	**7**	7
Total related party recoveries	**15**	15

(a) The Corporation charged its parent, FortisBC Pacific, for management services, labour and materials.

(b) The Corporation charged FEI for electricity sales.

(c) The Corporation charged FEI for management services and other labour.

Related Party Costs

The amounts charged by Fortis and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2019**	2018
Power purchase costs charged by WELP (a)	**17**	47
Operating costs charged by WELP (a)	**-**	1
Operating costs charged by Fortis (b)	**2**	3
Operating costs charged by FEI (c)	**7**	6
Operating costs charged by FHI (d)	**1**	1
Total related party costs	**27**	58

(a) The Corporation was charged by WELP for purchasing capacity pursuant to the WECA and for a portion of water fees. During January 2019, Fortis announced the sale of its 51 per cent interest to parties not related to Fortis. The transaction closed April 16, 2019, after which time WELP ceased to be a related party to the Corporation.

(b) The Corporation was charged by Fortis for corporate management services, other compensation, and interest.

(c) The Corporation was charged by FEI for natural gas purchases, office rent, management services, and other labour.

(d) The Corporation was charged by FHI for management services and board of director costs.

Balance Sheet Amounts

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

	2019		2018	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
Due to parent company (a)	**-**	**(60)**	-	-
Accounts receivable or accounts payable and other current liabilities:				
WELP	**-**	**-**	-	(12)
FHI	**-**	**(1)**	-	-
Total due from (due to) related parties	**-**	**(61)**	-	(12)

(a) During the fourth quarter of 2019 the Corporation entered into demand loans with its ultimate parent, Fortis. These demand loans are unsecured, due on demand, and bear interest equivalent to draws on its operating credit facility.

BUSINESS RISK MANAGEMENT

The Corporation is subject to a variety of risks and uncertainties that may have a material adverse effect on the Corporation's results of operations and financial position.

Regulatory Approval and Rate Orders

The regulated operations of the Corporation are subject to the uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return is impacted by achieving the forecasts established in the rate-setting process. The cost for upgrading existing facilities and adding new facilities requires the approval of the BCUC for inclusion in the rate base. There is no assurance that capital projects perceived as required by the management of the Corporation will be approved or that conditions to such approval will not be imposed.

Through the regulatory process, the BCUC approves the ROE that the Corporation is allowed to earn and the deemed capital structure. Fair regulatory treatment that allows the Corporation a reasonable opportunity to earn a fair risk adjusted rate of return comparable to that available on alternative, similar risk investments is essential for maintaining service quality as well as on-going capital attraction and growth. There can be no assurance that the rate orders issued by the BCUC will permit the Corporation to recover all costs actually incurred and to earn the expected or fair rate of return.

Rate applications that reflect cost of service and establish revenue requirements are subject to either a public hearing process which may be oral or written, or a negotiated settlement. The BCUC has approved a PBR rate-setting methodology for the Corporation for a term of 2014 through 2019, after an extensive public hearing process. Rates during this term were determined through a review process which occurred on an annual basis. Rates for 2020 through 2024 are dependent on the outcome of the MRP. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

A failure to obtain rates that recover the costs of providing service and provide a reasonable opportunity to earn an appropriate ROE and capital structure as applied for may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed upgrades or expansion projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, have a material adverse effect on the Corporation's results of operations and financial position.

There is legislation in BC which enables the BCUC to impose administrative monetary penalties on the Corporation, upon finding contravention of a BCUC order, rule, or standard. The penalty amount varies depending on the nature of the violation and it is not recoverable from customers.

Continued Reporting in Accordance with US GAAP

In December 2017, the Ontario Securities Commission ("OSC") approved the extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP, until the earliest of: (i) January 1, 2024; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation.

The IASB has released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent mandatory standard to be applied by entities with activities subject to rate regulation.

The Corporation continues to closely monitor the efforts of the IASB to issue a permanent standard specific to entities with activities subject to rate regulation. In the event that such a standard will not be issued before, or issued with an effective date after, the expiry of the OSC relief order, the Corporation will consider seeking an extension to the OSC relief order. If the OSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission ("SEC") registrant in order to continue reporting under US GAAP or adopt IFRS.

In the absence of a permanent standard for rate-regulated activities or continued OSC relief, adopting IFRS could result in volatility in the Corporation's earnings as compared to what would otherwise be recognized under US GAAP.

Asset Breakdown, Operation, Maintenance and Expansion

The Corporation's assets require ongoing maintenance, replacement and expansion. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that should be made to maintain, replace and expand the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain, replace or expand its asset base. The inability to recover, through approved rates, the costs of capital expenditures that the Corporation believes are necessary to maintain, replace, expand and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenses that will be incurred in the ongoing operation of its business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which involve some degree of uncertainty. It is uncertain whether capital expenditures will, in all cases, receive regulatory approval for recovery in future customer rates. The inability to recover these capital expenditures could have a material adverse effect on the Corporation's results of operations and financial position.

Environment, Health and Safety Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety, for which the Corporation incurs compliance costs. The process of obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive. This process could lead to delays in project approvals and lengthier construction timelines, which could adversely affect the Corporation through increased operating and capital costs. Potential environmental damage and costs could arise due to a variety of events, including severe weather and other natural disasters, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation is exposed to environmental risks that owners and operators of properties in BC generally face. These risks include the responsibility of any current or previous owner or operator of a contaminated site for remediation of the site, whether or not such person actually caused the contamination. In addition, environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval. It is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws.

Changes in environmental, health and safety laws could also lead to significant increases in costs to the Corporation.

Although most of the Corporation's generating and transmission facilities have been in place for many years with no apparent adverse environmental impact, environmental assessments and approvals may be required in the ordinary course of business for existing and future facilities.

Extreme climatic factors could potentially cause government authorities to adjust water flows on the Kootenay River, on which the Corporation's dams and related facilities are located, in order to protect the environment. This adjustment could affect the amount of water available for generation at the Corporation's plants or at plants operated by parties contracted to supply energy to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, environmental management for sensitive species and their habitat and conducting environmental impact assessments and remediation. It is possible that other developments may lead to increasingly strict environmental and safety laws, regulations and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation. Any regulatory changes that impose additional environmental restrictions or requirements on the Corporation or its customers could adversely affect the Corporation through increased operating and capital costs.

Scientists and public health experts in Canada, the United States and other countries are studying the possibility that exposure to electro-magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electro-magnetic fields present a health hazard, litigation could result and the Corporation could be required to take mitigation measures on its facilities. The costs of litigation, damages awarded and mitigation measures could be material.

Spills and leaks can occur in the operation of electricity generation and transmission facilities, including, primarily the release of substances such as oil into water or onto land. In addition, historical spills may result in the accumulation of hydrocarbons and polychlorinated biphenyls ("PCB") contaminants in land primarily at substation sites. The Corporation responds to spills and leaks and takes remedial steps in accordance with environmental regulations and standards and sound industry practice; however, there can be no assurance that the Corporation will not be obligated to incur further expenses in connection with changes in environmental regulations and standards or as a result of historical contamination.

Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles. Risks associated with fire damage are related to weather, the extent of forestation, habitation, third party facilities located near the land on which the transmission facilities are situated and third party claims for fire-fighting costs and other damages. Such claims could have a material adverse effect on the Corporation's results of operations and financial position.

Electricity transmission and distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions which could result in delays between the occurrence of an insured loss and recovery through insurance proceeds. In addition, there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance. See "Underinsured and Uninsured Losses" below.

Climate Change

In addition to the seasonality of the Corporation's business, climate change may affect the temperature variability in the Corporation's service territory and cause changes in the consumption pattern of electricity by the Corporation's customers, which in turn could have an impact on customer rates.

Climate change may also have the effect of increasing the severity and frequency of weather-related eventsthat could affect the Corporation's operations and system reliability, explained further under "Weather and Natural

Disasters" below. Responding to these changes in weather events could lead to increased costs associated with the strengthening of infrastructure to ensure system reliability and resiliency. An increase in the severity and frequency of weather-related events could impact future operating, maintenance, replacement, expansion and removal costs that will be incurred in the ongoing operation of its business.

Weather and Natural Disasters

The facilities of the Corporation could be exposed to the effects of severe weather conditions and other natural events, some of which could be caused by climate change. A major natural disaster, such as an earthquake, could severely damage the Corporation's electricity generation, transmission and distribution systems. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Furthermore, many of these facilities are located in remote areas which make it more difficult to perform maintenance and repairs if such assets are damaged by weather conditions or other natural events. The Corporation operates facilities in remote and mountainous terrain with a risk of loss or damage from forest fires, floods, washouts, landslides, avalanches and similar natural events.

The Corporation has limited insurance against storm damage and other natural disasters. In the event of a large uninsured loss caused by severe weather conditions, changes in climate, or other natural disasters, application would be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC would approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations. Thus, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, and could, therefore, have a material adverse effect on the Corporation's results of operations and financial position.

Permits

The acquisition, ownership and operation of electricity businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and Indigenous Peoples. For various reasons, including increased stakeholder participation, the Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the Corporation's ability to properly implement or complete approved capital expenditure programs could become limited and the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation's ability to generate electricity from its facilities on the Kootenay River and to receive its entitlement of capacity and energy under the second amended and restated Canal Plant Agreement (the "Canal Plant Agreement") depends upon the maintenance of its water licences issued under the *Water Act* (British Columbia). In addition, water flows in the Kootenay River are governed under the terms of the Columbia River Treaty between Canada and the United States as well as the International Joint Commission's order for Kootenay Lake. Government authorities in Canada and the United States have the power under the treaty and the International Joint Commission order to regulate water flows to protect environmental values in a manner that could adversely affect the amount of water available for the generation of power.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage with respect to potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers as is considered appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations and financial position.

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Additionally, delays between the occurrence of an uninsured loss (or

liability) and recovery through an increased tariff could result in variability of results between periods. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's results of operations and financial position.

Indigenous Rights and Indigenous Engagement

The Corporation provides service to customers on Indigenous Peoples lands and maintains generation, transmission and distribution facilities on lands that are subject to land claims by various Indigenous Peoples. There are various treaty negotiation processes involving Indigenous Peoples and the Governments of BC and Canada that are underway, but the basis upon which settlements might be reached in the Corporation's service area is not clear. Furthermore, not all Indigenous Peoples are participating in the processes. To date, the policy of the Government of BC has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement processes will not have a material adverse effect on the Corporation's results of operations and financial position.

Before issuing approvals for the addition of new infrastructure, the BCUC will consider whether the Crown has a duty to consult Indigenous Peoples and to accommodate, if necessary, and if so whether the consultation and accommodation by the Crown have been adequate. If engagement and consultation with Indigenous groups are not addressed upfront, this may affect the timing, cost and likelihood of regulatory approval of certain of the Corporation's capital projects and result in higher costs to implement projects in the longer term.

The Province's *Declaration on the Rights of Indigenous Peoples Act* ("DRIPA") sets out a process by which the Province will review its laws to ensure they are consistent with the United Nations Declaration on the Rights of Indigenous Peoples. This review may result in amendments to provincial legislation which may affect the Corporation. DRIPA also empowers the Government of BC to enter into agreements with Indigenous governing bodies to provide for joint-decision making or to require consent of an Indigenous governing body before certain decisions are made.

Labour Relations

The Corporation employs members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Corporation's results of operations and financial position.

Employee Future Benefits

The Corporation maintains defined benefit pension plans and supplemental pension arrangements. There is no certainty that the plan assets will be able to earn the assumed rate of returns. Market driven changes impacting the performance of the plan assets may result in material variations in actual return on plan assets from the assumed return on the assets causing material changes in net benefit costs. Net benefit cost is impacted by, among other things, the discount rate, changes in the expected mortality rates of plan members, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other assumptions, including the assumed discount rate, may also result in future contributions to pension plans that differ significantly from current estimates as well as causing material changes in net benefit cost.

There is also measurement uncertainty associated with net benefit cost, future funding requirements, the net accrued benefit asset and projected benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

Net benefit cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Human Resources

The ability of the Corporation to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain skilled workforces. Like other utilities across Canada, the Corporation is faced with demographic challenges relating to such skilled workforces. The inability to attract, develop and retain skilled workforces could have a material adverse effect on the Corporation.

Information Technology Infrastructure

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution, transmission and generation facilities; provide customers with billing and consumption information; and support the financial and general operating aspects of the business. The reliability of the communication infrastructure and supporting systems are also necessary to provide important safety information. System failures could have a material adverse effect on the Corporation.

Cyber-Security

The Corporation operates critical energy infrastructure in its service territory and, as a result, is exposed to the risk of cyber-security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, in the normal course of operation, the Corporation requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach. A security breach could have a material adverse effect on the Corporation's results of operations and financial position.

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. Regulated interest expense variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

A general and extended decline in BC's economy or in that of the Corporation's service area in particular, would be expected to have the effect of reducing demand for electricity over time. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices, housing starts and customer growth. In addition, electricity demand by some of the Corporation's industrial customers could exhibit variations in demand or load in such circumstances.

Regulated electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these variances could have a material adverse effect on the Corporation's results of operations and financial position.

A severe and prolonged downturn in economic conditions could have a material adverse effect on the Corporation despite regulatory measures available for compensating for reduced demand which could have a material adverse effect on the Corporation.

Capital Resources and Liquidity

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The Corporation's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in BC, regulatory decisions regarding capital structure and ROE, the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. Funds generated from operations, after payment of expected expenses (including interest payments on any outstanding debt), may not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and to repay existing debt.

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and

on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Certain of the Corporation's agreements could require additional credit collateral, such as letters of credit, should there be a deterioration in the Corporation's credit ratings or creditworthiness. Global financial crises have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

Volatility in the global financial and capital markets may increase the cost of and affect the timing of issuance of long-term capital by the Corporation.

Competitiveness and Commodity Price Risk

While the Corporation currently meets the majority of its current customer supply requirements from its own generation and long-term power purchase contracts, a portion of the customer load is supplied from the market in the form of short-term and spot market power purchases. The commodity price associated with the cost of purchased power is affected by changes in world oil prices, natural gas prices and water levels on a regional basis. Purchase power cost variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material effect on the Corporation's results of operations and financial position. If the Corporation's price of electricity becomes uncompetitive with other electricity providers or the price of other forms of energy, the Corporation's ability to recover its cost of service may be negatively affected.

The Corporation's indirect customers are directly served by the Corporation's wholesale customers, who themselves are municipal utilities. Those utilities may be able to obtain alternate sources of energy supply which would result in decreased demand, higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the Corporation's cost of service in rates charged to customers.

Power Purchase and Capacity Sale Contracts

The Corporation has entered into power purchase contracts and resale contracts for excess capacity. The Corporation may not be able to secure extensions of power purchase contracts at their expiration dates or, if the agreements are not extended, an alternate supply of similarly-priced electricity. In addition, the Corporation may not be able to secure additional capacity resale contracts. The Corporation is also exposed to risk in the event of non-performance by counterparties to the various power purchase and resale contracts.

Electricity Supply Risk

Fluctuations in the amount of electricity used by customers can vary significantly in response to seasonal changes in weather. Cool summers may reduce air-conditioning demand, while warm winters may reduce electric heating load. Electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these revenue variances could have a material adverse effect on the Corporation's results of operations and financial position.

Prolonged adverse weather conditions could lead to a significant and sustained loss of precipitation over the headwaters of the Kootenay River system, which could reduce the Corporation's entitlement to capacity and energy under the Canal Plant Agreement.

FINANCIAL INSTRUMENTS

Financial Instruments Not Measured At Fair Value

The following table includes the carrying value and estimated fair value of the Corporation's secured and unsecured long-term debt as at December 31:

		2019		2018	
($ millions)	**Fair Value Hierarchy**	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**735**	**950**	735	848

[1] Carrying value excludes unamortized debt issuance costs.

Power purchase contracts that have been designated as normal purchase or normal sale contracts are not reported at fair value under the accounting rules for derivatives. They are accounted for on an accrual basis.

NEW ACCOUNTING POLICIES

Standard	Effective Date	Description	Effect on FBC
Leases	January 1, 2019	ASU No. 2016-02, *Leases* (ASC 842), requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional quantitative and qualitative disclosures. When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised. Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense straight-line over the lease term.	FBC applied the transition provisions as of the adoption date and did not retrospectively adjust prior periods. FBC elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which FBC accounts for as a single lease component. Also, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows. As at December 31, 2019, the Corporation recognized $1 million of right-of-use assets and lease liabilities primarily related to office facilities. Additionally, this adoption resulted in finance lease costs previously recognized in power purchase costs and operating costs to be reclassified and presented within depreciation and finance charges, with no effect on net earnings.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's Condensed Consolidated Interim 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 Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are 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 in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in the period in which they become known. The Corporation's critical accounting estimates are discussed below.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recognized based on previous, existing or expected regulatory orders or decisions. Certain estimates are

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. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are recognized in earnings in the period in which they become known. 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 or not it is a recognized subsequent event. As at December 31, 2019, the Corporation recognized $386 million in current and long-term regulatory assets (2018 - $351 million) and $34 million in current and long-term regulatory liabilities (2018 - $33 million).

Depreciation, Amortization and Removal Costs

Depreciation and amortization are estimates based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2019, the Corporation's property, plant and equipment and intangible assets were $1,636 million, or approximately 70 per cent of total assets, compared to $1,591 million, or approximately 71 per cent of total assets as at December 31, 2018. Changes in depreciation and amortization rates may have a significant impact on the Corporation's consolidated depreciation and amortization expense.

As part of the customer rate-setting process, appropriate depreciation and amortization rates are approved by the BCUC. The depreciation and amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, independent third-party depreciation studies are performed and based on the results of these depreciation studies, the impact of any over-or-under depreciation and amortization as a result of actual experience differing from that expected and provided for in previous depreciation and amortization rates is generally reflected in future depreciation and amortization rates and expense.

As approved by the BCUC, effective January 1, 2016 a net salvage provision is collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the regulatory liability balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service.

Assessment for Impairment of Goodwill

The Corporation is required to perform, at least on an annual basis, an impairment test for goodwill, and any impairment provision has to be charged to earnings. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value. No such event or change in circumstances occurred during 2019 or 2018.

As at December 31, 2019 goodwill totaled $235 million (2018 - $235 million).

During 2019, the Corporation performed an annual assessment of goodwill and 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.

Employee Future Benefits

The Corporation's defined benefit pension plans and supplemental pension arrangements and OPEB plan are subject to judgments utilized in the actuarial determination of the net benefit cost and related obligation. The main assumptions utilized by management in determining net benefit cost and obligation are the discount rate for the projected benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2019, was 6.00 per cent which was consistent with 2018. As two of the Corporation's defined benefit pension plans have excess interest indexing provision where a portion of investment returns are allocated to provide for indexing of pension benefits, the projected benefit obligations for these two plans may vary based on the expected long-term rate of return on plan assets.

The assumed discount rate, used to measure the projected pension benefit obligations on the measurement date of December 31, 2019, and to determine the pension net benefit cost for 2020, is 3.00 per cent. This is a decrease from the assumed discount rate of 3.75 per cent used to measure the projected benefit obligations as at December 31, 2018, and to determine the pension net benefit cost for 2019.

The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

The Corporation expects net benefit cost for 2020 related to its defined benefit pension plans, prior to regulatory adjustments, to be $3 million, an increase of $1 million compared to 2019, which is primarily due to an increase in current service costs. This increase is a result of the decline in the discount rates, partially offset by an amendment to the indexation provision related to one of the Corporation's pension plans.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on pension plan assets and the discount rate on 2019 net benefit pension cost, and the related projected benefit obligations recognized in the Corporation's consolidated financial statements:

Increase (decrease) ($ millions)	**Net Benefit Cost**	**Projected Benefit Obligation**
1% increase in the expected rate of return	**(1)**	**14**
1% decrease in the expected rate of return	**1**	**(25)**
1% increase in the discount rate	**(1)**	**(39)**
1% decrease in the discount rate	**5**	**51**

The above table reflects the changes before the effect of any regulatory deferral mechanism approved by the BCUC. The Corporation currently has in place BCUC approved mechanisms to defer variations in pension net benefit costs from forecast net benefit costs, used to set customer rates, as a regulatory asset or liability.

Other significant assumptions applied in measuring the pension net benefit cost and/or the projected benefit obligation include the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates.

The Corporation's OPEB plan is also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation. The Corporation currently has in place a BCUC approved mechanism to defer variations in OPEB net benefit costs from forecast OPEB net benefit costs, used to set customer rates, as a regulatory asset or liability.

As at December 31, 2019, the Corporation had a pension projected benefit net liability of $37 million (2018 - $25 million) and an OPEB projected benefit liability of $23 million (2018 - $26 million). The increase in the projected pension benefit liability during 2019 was a result of the 0.75 per cent decrease in the discount rate used to measure the projected benefit liability partially offset by a pension plan amendment to change the indexing provisions. The net decrease in the OPEB projected benefit liability was a result of the elimination of British Columbia Medical Services Premiums effective January 1, 2020, which more than offset the increase in the projected benefit liability due to the change in assumed discount rate. During 2019, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of $6 million (2018 - $6 million).

Asset Retirement Obligations ("AROs")

FBC has recorded an ARO associated with the removal of PCB contaminated oil from its electrical equipment. AROs are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation can be reasonably estimated at the present value of the estimated fair value of the future costs. The determination of the ARO depends upon management's best estimates relating to factors such as timing, amount and nature of future cash flows necessary to discharge the legal obligation and comply with existing legislation or regulations, as well as the use of a credit-adjusted risk-free rate for measurement purposes. There are uncertainties in estimating future asset retirement costs due to potential external events such as changing legislation or regulations and advances in remediation technologies. It is possible that volumes of contaminated assets, inflation assumptions, cost estimates to perform the work and the assumed pattern of annual cash flows may differ significantly from the Corporation's current assumptions. In addition, in order to remove certain PCB-contaminated oil, the ability to take maintenance outages in critical facilities may impact the timing of expenditures. The ARO may change from period to period because of the changes in the estimation of these uncertainties.

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs, such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2019, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $24 million (2018 - $22 million) on annual electricity revenues of $362 million (2018 - $354 million).

Income Taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax values. A deferred income tax asset or liability is determined for each temporary difference based on enacted income tax rates and laws in effect when the temporary differences are expected to be recovered or settled. Deferred income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recognized against earnings in the period when the allowance is created or revised. Estimates of the provision for current income taxes, deferred income tax assets and liabilities, and any related valuation allowance, might vary from actual amounts incurred.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth information derived from audited financial statements for the years ended December 31, 2019, 2018 and 2017. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years Ended December 31	**2019**	2018	2017
($ millions)			
Revenue	**404**	391	381
Net earnings attributable to controlling interest	**50**	50	50
Total assets	**2,326**	2,238	2,189
Long-term debt, excluding current portion	**729**	729	729
Dividends on common shares	**45**	44	47

2019/2018 – Revenue increased $13 million over 2018 and net earnings were consistent. For a discussion of the reasons for the increase in revenues and net earnings, refer to the "Consolidated Results of Operations" section of this MD&A. The increase in total assets was mainly due to capital expenditures, which included sustainment capital as well as major project expenditures discussed further under "Projected Capital Expenditures".

2018/2017 – Revenue increased $10 million over 2017 and net earnings were consistent. The increase in revenues was primarily due to higher revenue recognized from third party contract work and higher surplus power sales, partially offset by an increase in the current year regulatory flow-through liability account that captures variances from regulated forecast items. The increase in total assets was mainly due to capital expenditures as well as an increase in regulatory assets, primarily associated with the BPPA finance lease and deferred income tax liabilities.

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union now referred to as MoveUP. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expired on December 31, 2019 and discussions with MoveUP continue. The second collective agreement, representing customer service employees, expires on March 31, 2022.

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

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 2,191,510 common shares, all of which are owned by FortisBC Pacific, an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

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