FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

Prepared in accordance with United States Generally Accepted Accounting Principles

MANAGEMENT'S REPORT

The accompanying annual consolidated financial statements of FortisBC Inc. (the "Corporation") have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must, of necessity, be based on estimates and informed judgments. These annual consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States.

In meeting its responsibility for the reliability and integrity of the annual consolidated financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional employees and the effective communication of management guidelines and policies. The effectiveness of the internal controls of FortisBC Inc. is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Risk Committee (the "Audit Committee") which is composed of four independent directors and one director who is an officer of a related company. The Audit Committee oversees the external audit of the Corporation's annual consolidated financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholder's auditors and the internal auditor to discuss the results of the external audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual consolidated financial statements are reviewed by the Audit Committee with each of management and the shareholder's auditors before the statements are recommended to the Board of Directors for approval. The shareholder's auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Corporation's annual consolidated financial statements and to review and report to the Board of Directors on policies relating to the accounting and financial reporting and disclosure processes.

The Audit Committee has the duty to review financial reports requiring Board of Directors' approval prior to the submission to securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review shareholder's auditors' independence and auditors' fees.

The 2013 annual consolidated financial statements and Management Discussion and Analysis were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisBC Inc.

Ernst & Young LLP, independent auditors appointed by the shareholder of FortisBC Inc. upon recommendation of the Audit Committee, have performed an audit of the 2013 annual consolidated financial statements and their report follows.

(Signed by)	(Signed by)
John Walker President and Chief Executive Officer	Michele Leeners Vice President, Finance and Chief Financial Officer

Kelowna, Canada
February 4, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
FortisBC Inc.

We have audited the accompanying consolidated financial statements of **FortisBC Inc.**, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **FortisBC Inc.** as at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst & Young LLP

Vancouver, Canada,
February 4, 2014.

Chartered Accountants

FORTIS BC

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

ASSETS (note 11)	**2013**	2012
Current assets		
Cash and cash equivalents	**$ 0.5**	$ 1.8
Accounts receivable (notes 4 and 21)	**52.3**	39.8
Materials and supplies	**0.6**	0.5
Prepaid expenses	**1.0**	1.0
Other assets (note 5)	**0.3**	0.4
Regulatory assets (note 8)	**9.0**	6.3
Deferred income taxes (note 18)	**5.2**	0.6
	68.9	50.4
Property, plant and equipment (note 6)	**1,374.4**	1,323.4
Intangible assets (note 7)	**45.5**	44.8
Regulatory assets (note 8)	**274.4**	285.1
Other assets (note 5)	**6.1**	6.7
Goodwill (note 9)	**234.8**	220.7
	$ 2,004.1	$ 1,931.1
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and other current liabilities (notes 10, 15 and 21)	**$ 43.2**	$ 41.6
Income taxes payable	**4.3**	0.3
Current portion of long-term debt (note 11)	**171.3**	0.9
Current portion of capital lease and finance obligations (note 12)	**0.5**	0.5
Regulatory liabilities (note 8)	**15.6**	2.0
Deferred income taxes (note 18)	**3.2**	2.1
	238.1	47.4
Long-term debt (note 11)	**541.0**	660.0
Capital lease and finance obligations (note 12)	**305.7**	312.4
Regulatory liabilities (note 8)	**4.0**	7.0
Other liabilities (note 13)	**2.4**	3.7
Pension and other post-employment benefits (note 15)	**56.4**	80.5
Deferred income taxes (note 18)	**125.8**	110.3
	1,273.4	1,221.3
Shareholder's equity		
Common shares [a] (note 14)	**219.2**	201.9
Additional paid-in capital (note 9)	**321.8**	321.8
Retained earnings	**189.7**	186.1
	730.7	709.8
	$ 2,004.1	$ 1,931.1

[a] Par value of $100 each; 500 million authorized common shares; 2.2 million issued and outstanding at December 31, 2013 and 2.0 million issued and outstanding at December 31, 2012.

Commitments and Contingencies (notes 22 and 23)

Approved on behalf of the Board:

(Signed by) Harold Calla
Director

(Signed by) John Walker
Director

The accompanying notes are an integral part of these consolidated financial statements.

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

	2013	2012
Revenues (note 21)		
Electricity revenue	**$ 310.4**	$ 285.0
Other revenue (expenses)	**(1.7)**	8.4
	308.7	293.4
Expenses		
Power purchase costs	**83.3**	76.0
Operating costs (note 21)	**76.8**	73.3
Depreciation and amortization (notes 6, 7 and 8)	**49.7**	48.5
	209.8	197.8
Operating income	**98.9**	95.6
Other income	**1.6**	1.1
Finance charges (notes 16 and 21)	**38.9**	38.9
Earnings before income taxes	**61.6**	57.8
Income taxes (note 18)	**12.0**	8.8
Net earnings	**$ 49.6**	$ 49.0

FortisBC Inc.
Consolidated Statements of Changes in Equity (US GAAP)
For the year ended December 31
(in millions of Canadian dollars)

	Common Shares	**Additional Paid-in Capital**	**Retained Earnings**	**Total**
As at December 31, 2011	$ 201.9	$ 321.8	$ 161.1	$ 684.8
Net earnings	-	-	49.0	49.0
Dividends on common shares	-	-	(24.0)	(24.0)
As at December 31, 2012	**201.9**	**321.8**	**186.1**	**709.8**
Net earnings	**-**	**-**	**49.6**	**49.6**
Dividends on common shares	**-**	**-**	**(46.0)**	**(46.0)**
Issuance of common shares	**17.3**	**-**	**-**	**17.3**
As at December 31, 2013	**$ 219.2**	**$ 321.8**	**$ 189.7**	**$ 730.7**

The accompanying notes are an integral part of these consolidated financial statements.

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

	2013	2012
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 49.6**	$ 49.0
Adjustments for non-cash items		
Depreciation and amortization (notes 6, 7 and 8)	**49.7**	48.5
Amortization - deferred financing costs (note 16)	**0.4**	0.4
Equity component of allowance for funds used during construction	**(1.6)**	(1.0)
Deferred income taxes (note 18)	**0.1**	-
Change in long-term regulatory assets and liabilities	**7.0**	(0.5)
Change in other assets and other liabilities	**0.9**	0.1
Changes in non-cash working capital (note 17)	**(8.0)**	(9.4)
	98.1	87.1
Investing activities		
Change in other assets and other liabilities	**(0.4)**	0.6
Capital expenditures - property, plant and equipment (note 17)	**(64.8)**	(64.0)
Capital expenditures - intangible assets (note 17)	**(4.7)**	(4.9)
Contributions in aid of construction	**3.1**	5.5
Business acquisition (note 9)	**(55.1)**	-
	(121.9)	(62.8)
Financing activities		
Proceeds from credit facilities	**52.3**	17.5
Repayment of debentures	**-**	(15.0)
Deferred financing costs	**(0.2)**	-
Repayment of mortgage	**(0.9)**	(1.0)
Dividends on common shares	**(46.0)**	(24.0)
Issuance of common shares (note 14)	**17.3**	-
	22.5	(22.5)
Net increase (decrease) in cash and cash equivalents	**(1.3)**	1.8
Cash and cash equivalents at beginning of year	**1.8**	-
Cash and cash equivalents at end of year	**$ 0.5**	$ 1.8

Supplementary Information to Consolidated Statements of Cash Flows (note 17).

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. ("FortisBC" or the "Corporation") is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific") which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

FortisBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 163,800 customers directly and indirectly. The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 223 megawatts ("MW"), approximately 7,150 kilometers of transmission and distribution power lines, and a peak demand of 746 MW. Included in FortisBC's non-regulated assets is a 16 MW run-of-river hydroelectric power plant near Lillooet, BC.

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 ("US GAAP") for annual financial statements and in accordance with Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). The consolidated financial statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries, Walden Power Partnership ("WPP"), ESI Power-Walden Corporation Ltd. and West Kootenay Power Ltd. All material inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through February 4, 2014, the date these consolidated financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the consolidated financial statements as at December 31, 2013. Subsequent events have been appropriately disclosed in these consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current year's presentation.

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 tariffs, rates, construction, operations, financing and accounting.

The Corporation's consolidated financial statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from that for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ending December 31, 2013 and 2012 are described in these "Summary of Significant Accounting Policies", and in note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 9 "Goodwill", note 12 "Capital Lease and Finance Obligations", note 13 "Other Liabilities", note 15 "Employee Future Benefits", note 16 "Finance Charges", and note 18 "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 or not it is a recognized subsequent event.

In August 2012 FortisBC received a decision from the BCUC on its 2012-2013 Revenue Requirements Application ("2012-2013 RRA"). The decision resulted in a cost of service based methodology and covers the years 2012 and 2013. During 2012 the Corporation earned an allowed rate of return that was based on a deemed debt-equity ratio of 60 per cent debt and 40 per cent equity and a return on equity ("ROE") of 9.90 per cent. As a result of the Generic Cost of Capital ("GCOC") Proceeding stage one as discussed under note 3 "Regulatory Matters", during 2013 the Corporation earned an allowed rate of return that was based on a deemed debt-equity ratio of 60 per cent debt and 40 per cent equity and an ROE of 9.15 per cent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects management's best estimate of losses on the accounts receivable balances. The Corporation maintains an allowance for doubtful accounts that is estimated based on a variety of factors including accounts receivable aging, historical experience and other currently available information, including events such as customer bankruptcy and current economic conditions. Interest is charged on overdue accounts receivable balances. Accounts receivable are charged-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.

Materials and Supplies

Materials and supplies includes inventory held for day-to-day operations and for the maintenance of property, plant and equipment. Inventory held for construction or used only in connection with an item of property, plant and equipment is classified as property, plant and equipment. Inventory is measured at the lower of average cost and market value.

Property, Plant and Equipment

Property, plant and equipment are 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 an allowance for funds used during construction ("AFUDC"). When allowed by the BCUC, regulated operations capitalize an allowance for equity funds used during construction 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 in service at the beginning of the year.

As approved by the BCUC, gains and losses on the sale or removal of property, plant and equipment are charged to accumulated depreciation and will be reflected in future depreciation expense when refunded or collected in rates.

As approved by the BCUC, actual costs of removal and site restoration, net of salvage proceeds, are recorded against accumulated depreciation when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer to the Corporation substantially all of 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 pursuant to Accounting Standards Codification ("ASC") Topic 840-10-15 *Leases*.

Capital 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 capital leases are amortized over the estimated service life of the underlying asset. Where the BCUC has approved recovery of qualifying capital lease arrangements as operating leases for rate-setting purposes, specifically the Brilliant Power Purchase Agreement ("BPPA") and the Brilliant Terminal Station ("BTS") included in note 12 "Capital Lease and Finance Obligations", the timing of the expense recognition related to the lease is modified to conform with the regulatory treatment. Therefore, the total interest and depreciation expense recognized during a period equals the operating lease rental 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.

Operating lease payments are recognized as an expense in earnings on a straight-line basis over the lease term.

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, an allocation of overhead costs and AFUDC. When allowed by the BCUC, regulated operations also capitalize an allowance for equity funds used during construction 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 rates for intangible assets are approved by the BCUC.

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, 2013 and 2012.

As approved by the BCUC, gains and losses on the sale or removal of intangible assets are charged to accumulated amortization and will be reflected in future amortization expense when refunded or collected in rates.

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 rate of return on capital or assets, is provided through customer electricity rates approved by the BCUC. The net cash inflows for the Corporation are not

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

asset-specific but are pooled for the entire regulated utility. There was no impairment of regulated long-lived assets for the years ended December 31, 2013 and 2012.

The asset-impairment assessment of the Corporation's non-regulated WPP hydroelectric power plant near Lillooet, BC is described in note 24.

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.

Pursuant to ASC Topic 350, *Intangibles – Goodwill and Other*, when the Corporation tests goodwill for impairment it has the option, on an annual basis, of performing a qualitative assessment before calculating fair value. If the qualitative factors indicate that fair value is 50 per cent or more likely to be greater than the carrying value, calculation of fair value would not be required.

The Corporation performs an annual internal quantitative assessment and fair value is estimated by an independent external consultant when: (i) management's assessment of quantitative and qualitative factors indicates that fair value is not 50 per cent or more likely to be greater than carrying value; or (ii) when the excess of estimated fair value compared to carrying value, as determined by an independent external consultant as of the date of the immediately preceding impairment test, was not significant. Irrespective of the above-noted criteria, the Corporation will have fair value estimated by an independent external consultant, as at the annual impairment date, at a minimum once every three years.

The Corporation performs the annual impairment test as at October 1. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of the Corporation was below its carrying value. No such event or changes in circumstances occurred during 2013 or 2012 and there were no impairment provisions required in either year.

As at October 1, 2013, the fair value of the Corporation was estimated by an independent external consultant and estimated fair value was determined to be in excess of carrying value. It was concluded that goodwill was not impaired.

Asset Retirement Obligations

The Corporation recognizes 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 concurrently recognizes 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 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 is 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 recognized as a regulatory asset 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.

The Corporation has AROs for which the obligations cannot be reasonably estimated at this time. These AROs are primarily associated with the Corporation's hydroelectric generating facilities and assets associated with interconnection facilities and wholesale energy supply agreements. While each of the foregoing will have legal asset retirement obligations (i.e. land and environmental remediation and/or removal of assets), the final date of removal of the related assets and the costs to do so cannot be reasonably determined at this time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Electricity revenue is billed at rates approved by the BCUC and is bundled to include the cost of generating, transmitting and distributing electricity. In addition, the rate includes customer service as well as other corporate and service functions.

Electricity is metered upon delivery to customers and is recognized as revenue when consumed using rates approved by the BCUC. Meters are normally read bi-monthly for the majority of FortisBC's customers, with the remainder read monthly, and bills are issued to customers based on these readings. At the end of each reporting period a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each reporting date. The estimation process for unbilled electricity consumption will result in adjustments to estimates of electricity revenues in the periods they become known.

Employee Future Benefits

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

These plans are accounted for pursuant to ASC Topic 715, *Compensation-Retirement Benefits* ("ASC Topic 715"). The cost of pensions and OPEBs earned by employees are actuarially determined as an employee accrues service. The Corporation uses the projected benefit pro-rate 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 the fair market value of plan assets.

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 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.

The Corporation also provides a defined contribution pension arrangement to certain employees not covered by the defined benefit plans. Defined contribution plan costs are expensed by the Corporation as contributions are payable.

Derivative Financial Instruments

The accounting guidance for derivative instruments in ASC Topic 815, *Derivatives and Hedging* requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value, unless they meet the normal purchase and normal sales scope exception. The Corporation continually assesses its contracts, including its power purchase agreements, to determine whether they meet the criteria of a derivative, and if so, whether they qualify for the normal purchase and normal sales scope exception.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Energy Management Loans

Loans to residential and commercial customers for energy efficiency initiatives and related products are interest bearing and range in terms from one to ten years. Interest on these loans is recognized in other income as earned, while the related fees and costs are recognized as energy management costs in regulatory assets and are currently approved for recovery in future customer rates over an average of ten years.

Deferred Financing Costs

Costs incurred to arrange debt financing are recognized as other assets and are accounted for using the effective interest method over the life of the related financial liability.

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.

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 are expected to be collected in rates once they become payable.

Any difference between the expense recognized under US GAAP 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.

Variable Interest Entities

The Corporation has performed a review of the entities with which it conducts business and has concluded that there are no entities that are required to be consolidated or variable interests that are required to be disclosed under the requirements of ASC Topic 810, *Consolidation of Variable Interest Entities.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of 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 judgements are based on historical experiences, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates are described in these "Summary of Significant Accounting Policies", in note 8 "Regulatory Assets and Liabilities" and note 23 "Contingencies". 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.

CHANGES IN ACCOUNTING POLICIES

The following new US GAAP accounting pronouncement that is applicable to, and was adopted by, the Corporation effective January 1, 2013 is described as follows:

Disclosures About Offsetting Assets and Liabilities

The Corporation adopted the amendments to ASC Topic 210, *Balance Sheet - Disclosures About Offsetting Assets and Liabilities* as outlined in Accounting Standards Update ("ASU") Nos. 2011-11 and 2013-01. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and International Financial Reporting Standards. ASU No. 2013-01 limits the scope of the new offsetting disclosure requirements previously issued in ASU No. 2011-11, to certain derivative instruments, repurchase and reverse repurchase agreements, and securities borrowing and lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting or similar arrangement. The above-noted amendments were applied retrospectively and did not impact the Corporation's consolidated financial statements for the years ended December 31, 2013 and 2012.

3. REGULATORY MATTERS

Allowed ROE and Capital Structure

In February 2012, the BCUC established that a GCOC Proceeding would occur and in April 2012, issued a final scoping document identifying specific items that would be reviewed as part of the GCOC Proceeding.

The BCUC also determined that a second, subsequent stage be added to the GCOC Proceeding to determine an appropriate ROE and capital structure for all other regulated utilities in BC, once the benchmark has been established in the first stage of the GCOC Proceeding. FortisBC Energy Inc. ("FEI"), a related company under common control, has been designated as the benchmark utility. FortisBC will have its allowed ROE and capital structure determined in stage two.

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for FEI and all other regulated entities in BC that rely on the benchmark utility to establish rates were to be maintained and made interim. In May 2013, the BCUC issued its decision on the first stage of the GCOC Proceeding. The decision determined that the ROE of the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component, both effective January 1, 2013. The common equity component in capital structure will remain in effect through December 31, 2015. Effective January 2014, the BCUC is also introducing an Automatic Adjustment Mechanism ("AAM") to set the ROE on an annual basis for the benchmark utility. The AAM will take effect when the actual long-term Government of Canada bond yield exceeds 3.8 per cent. The AAM will be in effect until December 31, 2015. In January 2014, the BCUC confirmed that the necessary conditions for the AAM to be triggered for the 2014 ROE have not been met, therefore the benchmark ROE remains 8.75 per cent for 2014.

3. REGULATORY MATTERS (continued)

FortisBC is currently approved for a risk premium of 40 basis points over the benchmark utility. As a result of the BCUC's decision on the first stage of the GCOC Proceeding, which reduced the ROE of the benchmark utility by 75 basis points, the interim allowed ROE of FortisBC decreased from 9.90 per cent in 2012 to 9.15 per cent effective January 1, 2013, while the deemed equity component of capital structure remained unchanged. The 2013 interim allowed ROE and the current capital structure of 40 per cent for FortisBC could change further as a result of stage two of the GCOC Proceeding.

In March 2013, the BCUC initiated the second stage of the GCOC Proceeding. FortisBC filed risk premium and equity ratio evidence in July 2013. The evidentiary phase has been completed with a decision expected in the first half of 2014.

Kettle Valley Distribution Source Project Capital Expenditure Prudency Review Decision

In March 2012, the BCUC ordered a written hearing to review the prudency of capital expenditures already incurred related to the approximately $29 million Kettle Valley Distribution Source Project which was substantially completed in 2009. The written hearing process was completed in 2012. In April 2013, the BCUC issued a decision reducing the amount to be included in rate base by approximately $0.1 million effective January 1, 2012. The $0.1 million excluded from rate base will continue to be recognized in property, plant and equipment in the Corporation's consolidated balance sheet. The Corporation recognized an incremental $0.4 million of equity component of AFUDC during the first quarter of 2013 as a result of this decision.

4. ACCOUNTS RECEIVABLE

($ millions)	**2013**	2012
Billed revenue	**24.2**	20.6
Unbilled revenue	**24.1**	12.7
Other accounts receivable	**4.2**	6.6
Amounts due from related parties (note 21)	**1.0**	0.9
	53.5	40.8
Less: allowance for doubtful accounts	**1.2**	1.0
	52.3	39.8

5. OTHER ASSETS

($ millions)	**2013**	2012
Energy management loans	**1.4**	1.9
Deferred financing costs	**5.0**	5.2
	6.4	7.1
Less: current portion	**0.3**	0.4
	6.1	6.7

The current portion of other assets relate to energy management loans expected to be collected within the next year. During 2013, amortization of deferred financing costs of $0.4 million (2012 - $0.4 million) was recognized in finance charges (note 16).

6. PROPERTY, PLANT AND EQUIPMENT

2013	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Book Value
			($ millions)	
Generation	**2.2%**	**262.0**	**58.9**	**203.1**
Transmission	**2.5%**	**623.2**	**151.3**	**471.9**
Distribution	**2.6%**	**449.5**	**86.2**	**363.3**
General	**7.0%**	**145.1**	**63.1**	**82.0**
Assets under capital lease	**2.0%**	**283.9**	**53.9**	**230.0**
Assets under construction	**-**	**24.1**	**-**	**24.1**
		1,787.8	**413.4**	**1,374.4**

2012	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Book Value
			($ millions)	
Generation	2.1%	261.1	54.5	206.6
Transmission	2.4%	607.7	135.6	472.1
Distribution	2.5%	407.1	77.9	329.2
General	7.3%	134.1	58.4	75.7
Assets under capital lease	2.0%	280.9	48.4	232.5
Assets under construction	-	7.3	-	7.3
		1,698.2	374.8	1,323.4

As allowed by the BCUC, during the year ended December 31, 2013, the Corporation capitalized an allowance for debt and equity funds used during construction at approved rates of $0.9 million (2012 - $0.9 million) and $1.6 million (2012 - $1.0 million) respectively, and approved capitalized overhead of $11.5 million (2012 - $11.0 million), with offsetting inclusions in earnings.

Depreciation of property, plant and equipment for the year ended December 31, 2013 totalled $40.2 million (2012 - $39.4 million).

Included in property, plant and equipment are ARO costs totalling $2.6 million (2012 - $2.9 million). Depreciation of $0.3 million (2012 - $0.9 million) on the asset retirement costs was recorded in other recoverable costs in regulatory assets (note 8). The corresponding liability has been recorded as an ARO in other liabilities (note 13).

Assets under capital lease include the BPPA and BTS arrangements. Depreciation of $4.9 million (2012 - $4.8 million) on the BPPA asset under capital lease was recorded in the BPPA lease costs regulatory asset (note 8) and depreciation of $0.7 million (2012 - $0.7 million) on the BTS asset under capital lease was recorded in the BTS lease costs regulatory asset (note 8).

During 2013, actual removal and site restoration costs of $1.4 million (2012 - $3.7 million), net of salvage proceeds of $0.2 million (2012 - $0.2 million), was recorded in accumulated depreciation.

7. INTANGIBLE ASSETS

2013	**Cost**	**Accumulated Amortization**	**Book Value**
($ millions)			
Right of ways	**31.6**	**3.1**	**28.5**
Software	**57.6**	**40.6**	**17.0**
	89.2	**43.7**	**45.5**

2012	Cost	Accumulated Amortization	Book Value
($ millions)			
Right of ways	31.1	2.6	28.5
Software	52.8	36.5	16.3
	83.9	39.1	44.8

Amortization of intangible assets for the year ended December 31, 2013 totalled $4.4 million (2012 - $4.1 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 7.6 per cent (2012 – 7.3 per cent). Amortization of right of ways is recorded on a straight-line basis using an amortization rate of 2.2 per cent (2012 – 2.2 per cent).

Included in the cost of right of ways at December 31, 2013 was $12.4 million (2012 - $12.0 million) not subject to amortization.

For intangibles subject to amortization at December 31, 2013 the amortization expense is estimated to average approximately $4.8 million annually for each of the next five years.

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:

($ millions)	**2013**	2012	**Expected Remaining Settlement Period (years) as at December 31, 2013**
Regulatory Assets			
Energy management costs	**17.9**	14.9	15
Pension and OPEB unrecognized actuarial losses and past service costs	**33.1**	63.2	Ongoing
Pension and OPEB transition and variance asset	**15.2**	10.7	5-11
BPPA lease costs	**70.1**	63.1	43
BTS lease costs	**6.1**	5.9	30
Trail office building lease costs	**-**	7.9	-
Deferred income taxes	**125.3**	110.2	Ongoing
Income taxes recoverable on OPEBs	**5.3**	4.6	Ongoing
Other recoverable costs	**10.4**	10.9	1-7
	283.4	291.4	
Less: current portion	**9.0**	6.3	
	274.4	285.1	

($ millions)	**2013**	2012	**Expected Remaining Settlement Period (years) as at December 31, 2013**
Regulatory Liabilities			
2013 flow-through variances	**12.7**	-	1-2
2012 flow-through variances	**5.1**	7.2	1-2
2011 flow-through variances	**1.0**	1.0	1
Financing costs under effective interest method	**0.8**	0.8	37
	19.6	9.0	
Less: current portion	**15.6**	2.0	
	4.0	7.0	

During the year, amortization of regulatory assets of $5.1 million (2012 - $5.0 million) was recorded.

Energy Management Costs

The Corporation provides energy management services to promote energy efficiency programs for its customers. As required by BCUC order, the Corporation has capitalized all expenditures (except certain defined costs) and the regulatory asset represents the unamortized balance of the energy management program. The BCUC has previously approved recovery of this regulatory asset balance in future customer rates over an average of ten years. However starting in 2014, the Corporation has applied for this regulatory asset balance to be recovered from customers in future rates over an average of fifteen years.

Pension and OPEB Unrecognized Actuarial Losses 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. 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.

8. REGULATORY ASSETS AND LIABILITIES (continued)

The regulatory asset balance represents the deferred portion of the expense relating to pensions and OPEBs that is expected to be recovered from customers in future rates as the deferred amounts are included as a component of future net benefit cost. The regulatory asset balance is not subject to a regulatory return.

Pension and OPEB Transition and Variance Asset

Up until the end of 2011, a cumulative difference existed between the pension and OPEB amounts to be recognized under ASC Topic 715 and the pension and OPEB amounts recovered in rates as approved by the BCUC. This cumulative transitional amount, which was measured as of January 1, 2000, would otherwise be recognized in retained earnings but instead has been approved by the BCUC for deferral as a regulatory asset and to be collected from customers over a term of twelve years beginning on January 1, 2012. This regulatory asset balance is not subject to a regulatory return.

Also included in this balance is the variance between actual pension and OPEB expense and the amounts forecast for rate-setting purposes which has been deferred as a regulatory asset as approved by the BCUC. The BCUC has previously approved recovery of this regulatory asset balance in future customer rates over 3 years. However starting in 2014, the Corporation has applied for the pension cost variance account to be amortized over the estimated average remaining service life for the pension and OPEB plans. This regulatory asset balance is not subject to a regulatory return.

BPPA Lease Costs

The depreciation on the BPPA capital lease asset (note 6) and the interest expense associated with the BPPA lease obligation (note 12) are not being fully recovered by the Corporation in current customer rates since those rates include only the payments set out under the BPPA. The BPPA payments, including the related operating costs, are recovered as power purchase costs rather than as capital lease depreciation and interest expense. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, which ends in 2056, but it is not subject to a regulatory return.

BTS Lease Costs

The depreciation on the BTS capital lease asset (note 6), the interest expense associated with the BTS obligation (note 12) and the related operating costs are not being fully recovered by the Corporation in current customer rates since those rates include only the recovery of the BTS as an operating lease with associated operating costs. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, but it is not subject to a regulatory return.

Trail Office Building Lease Costs

In 1993 the Corporation sold and leased back its Trail, BC office building for a term of thirty years (note 12). The depreciation on the Trail office and the imputed interest expense on the finance obligation had not been fully recovered by the Corporation in customer rates since those rates included only the recovery of the Trail office lease payments pursuant to the agreement. This regulatory asset represented the deferred portion of the lease costs that were expected to be recovered from customers in future rates over the term of the agreement, but was not subject to a regulatory return.

During 2013, the Corporation exercised its tenant's option per the lease agreement to purchase the Trail office building and accordingly, the regulated asset, which was recognized as a result of assessing the original lease arrangement as a failed sale-leaseback, was derecognized as of September 30, 2013.

Deferred Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes for its rate-regulated operations. 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 a result, 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. The regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable, but it is not subject to a regulatory return.

8. REGULATORY ASSETS AND LIABILITIES (continued)

Income Taxes Recoverable on OPEBs

The BCUC allows OPEB plan costs to be collected in customer rates on an accrual basis, rather than on 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.

Other Recoverable Costs

This balance includes deferral of other costs which have either been approved by the BCUC for deferral and amortization or are expected to be approved. Other recoverable costs include costs associated with the long-term transmission and distribution system plan development, deferred projects, the rate application proceedings, the mountain pine beetle hazardous tree removal costs, deferred costs relating to the Corporation’s revenue protection program (including power diversion inspections, cost of audits for unmetered services, instrument meters and system losses), depreciation and accretion on the ARO, costs ordered for deferral as a result of the Kettle Valley Distribution Source Project prudency review and other miscellaneous project costs. Other recoverable costs also include the income tax impacts of the Corporation’s prepaid pension costs and deferred financing costs. This regulatory asset balance is expected to be recovered from customers in future rates.

Regulatory Flow-through Variances

The 2013 flow-through variance regulatory liability includes variances between actual electricity revenue and power purchase costs and those forecasted in determining customer electricity rates. Also included in the 2013 regulatory flow-through balance is $2.6 million related to the City of Kelowna acquisition and $3.6 million related to the GCOC Proceeding stage one decision which decreased the Corporation’s allowed ROE from 9.90 to 9.15 per cent, both of which have been approved for deferral as a regulatory liability in 2013. This regulatory liability is expected to be approved by the BCUC for settlement in 2014 and 2015 as reductions to 2014 and 2015 electricity revenue.

The 2012 flow-through variance regulatory liability includes variances between actual electricity revenue and power purchase costs and those forecasted in determining customer electricity rates. Also included in this regulatory liability balance as at December 31, 2012 was the flow-through back to customers for the refundable portion of the over collection of revenue requirements based on 2012 interim customer rates as compared to the final 2012 customer rates approved by the BCUC pursuant to the 2012-2013 RRA decision. As approved by the BCUC, this over collection of 2012 revenue requirements was refunded back to customers by decreasing 2013 customer rates. The remaining balance of this regulatory liability is expected to be approved by the BCUC for settlement in 2014 as a reduction to 2014 electricity revenue.

The 2011 flow-through variance regulatory liability includes variances in certain revenues and costs as compared to the forecast for rate-setting purposes that were deferred as regulatory liabilities to be refunded to customers in future customer rates. This regulatory liability also includes the sharing mechanism of the variance between the ROE resulting from actual 2011 financial performance as compared to the Corporation’s allowed 2011 ROE for rate-setting purposes. The remaining $1.0 million of the 2011 regulatory flow-through liability is expected to be approved by the BCUC for settlement in 2014 as a reduction to 2014 electricity revenue.

Financing Costs Under Effective Interest Method

This balance represents the cumulative difference between applying the effective interest method for amortizing financing costs and the straight-line amortization method prescribed by the BCUC. This regulatory liability represents the cumulative difference between the two amortization methods which will be refunded to customers over the term of the outstanding debt through future rates, but it is not subject to a regulatory return.

9. GOODWILL

($ millions)	**2013**	2012
Resulting from the push-down effects of the acquisition of FortisBC by Fortis	**219.5**	219.5
Associated with the acquisition of Princeton Light & Power Company, Limited ("PLP") by FortisBC	**1.2**	1.2
Associated with the acquisition of the City of Kelowna electrical utility business by FortisBC	**14.1**	-
	234.8	220.7

There was no impairment of goodwill for the years ended December 31, 2013 and 2012.

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Aquila Networks Canada (British Columbia) Ltd. (renamed FortisBC). The consideration paid for this acquisition has been recorded in FortisBC's financial statements using push-down accounting. In addition to goodwill, the Corporation has recognized additional paid-in capital related to the push-down of the excess purchase price paid by Fortis on acquisition over the fair value of the net assets acquired.

On December 31, 2006, FortisBC acquired PLP. The excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill.

Business Acquisition

On March 29, 2013, FortisBC purchased the City of Kelowna's (the "City") electrical utility business for $55.1 million. The completion of this transaction allows FortisBC to directly serve the approximate 15,000 customers formerly served by the City. Prior to the acquisition FortisBC had provided the City with electricity under a wholesale tariff and operated and maintained their assets since 2000.

The BCUC approval of the acquisition in early March 2013 allowed for $37.8 million of the $55.1 million purchase price to be included in FortisBC's rate base. The cash purchase price of $55.1 million was initially financed through draws on the Corporation's operating credit facilities. Subsequently, in the third quarter of 2013, equity of $17.3 million was issued to partially refinance the business acquisition.

The acquisition, which qualifies as a business combination, has been accounted for using the acquisition method, whereby financial results of the business acquired have been consolidated in the financial statements of FortisBC beginning on the acquisition date of March 29, 2013.

Based on the BCUC decision, the book value of these assets has been assigned as fair value. FortisBC is regulated under cost of service and the determination of revenues and earnings is based on a regulated rate of return that is applied to historic values which do not change with a change in ownership. Therefore, fair market value approximates book value and no adjustments were recorded for the assets acquired, because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers.

Accordingly, the fair value of assets acquired and goodwill is as follows:

($ millions)	
Property, plant and equipment	37.8
Deferred income tax asset	3.2
Goodwill	14.1
Total assets acquired	**55.1**

Goodwill represents the excess of the fair value of the consideration paid over the fair value of the assets acquired. The contributing factors to the amount recorded as goodwill include expected cash flows from future capital expenditures, potential operational synergies and customer rate mitigation.

Property, plant and equipment are depreciated based on rates approved by the BCUC and are calculated on a straight-line basis. The weighted average depreciation rate on these assets approximates 3 per cent.

9. GOODWILL (continued)

A deferred income tax asset has been recognized on the estimated future tax benefit to be received on the tax basis assigned to the goodwill (note 18).

The transaction costs which relate to the acquisition approximate $0.5 million and have been recognized in regulated assets pursuant to the BCUC decision.

The supplemental pro forma financial information below was prepared using the acquisition method of accounting and is based on assumptions regarding the inclusion of the City's electrical utility business in FortisBC's regulated rate base during 2013 and 2012. These estimated financial results have been combined with FortisBC's historical financial results for the years ended December 31, 2013 and 2012 on a comparative basis as follows:

($ millions)	**2013**	2012
Pro forma revenue	**312.7**	291.2
Pro forma earnings	**49.9**	49.8

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what the results would have been had the acquisition closed and was included in rate base on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods.

10. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

($ millions)	**2013**	2012
Labour accruals	**10.3**	10.0
Trade accounts payable	**9.8**	10.7
Power purchase and wheeling accruals	**8.6**	4.5
Customer deposits	**6.9**	6.1
Accrued interest	**4.2**	7.3
Other current liabilities	**2.1**	1.7
Pension and other post-employment benefits (note 15)	**0.8**	0.8
Amounts due to related parties (note 21)	**0.5**	0.5
	43.2	41.6

11. LONG-TERM DEBT

($ millions)	2013	2012
Secured Debentures		
Series G 8.8% due August 28, 2023	**25.0**	25.0
WPP mortgage 9.44% due October 31, 2013	**-**	0.9
	25.0	25.9
Unsecured Debentures		
Series H 8.77% due February 1, 2016	**25.0**	25.0
Series I 7.81% due December 1, 2021	**25.0**	25.0
Series 04-1 5.48% due November 28, 2014	**140.0**	140.0
Series 05-1 5.60% due November 9, 2035	**100.0**	100.0
Series 07-1 5.90% due July 4, 2047	**105.0**	105.0
Medium Term Note Debentures Series 1 6.10% due June 2, 2039	**105.0**	105.0
Medium Term Note Debentures Series 2 5.00% due November 24, 2050	**100.0**	100.0
	600.0	600.0
Operating credit facilities	**78.9**	35.0
Overdraft facility	**8.4**	-
	87.3	35.0
Total debt	**712.3**	660.9
Less: current portion of debt	**171.3**	0.9
Long-term debt	**541.0**	660.0

Secured and Unsecured Debentures

The Series G secured debentures are collateralized by a fixed and floating first charge on the assets of the Corporation. The secured Series G and unsecured Series H and I debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis. The Corporation repaid the WPP mortgage on October 31, 2013 and the Series F $15 million secured debenture on October 16, 2012.

In July 2013, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture (“MTN Debentures”) Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. Upon filing the shelf prospectus, 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 $300 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

Operating Credit Facilities and Overdraft Facility

As at December 31, 2013, the Corporation had authorized bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. The operating credit facility is comprised of a $100 million three-year revolving facility maturing in May 2016 (“Facility A”) and a $50 million, 364-day revolving facility maturing in May 2014 (“Facility B”). Two years prior to the current Facility A maturity date, the Corporation may request an extension of the maturity date for Facility A for a further period of 364 days and if the request for extension is not granted, all amounts outstanding under Facility A become due on the Facility A maturity date. Similarly, prior to the current Facility B maturity date, the Corporation may request the lenders to extend the term for an additional 364 days and if the request for extension is not granted, Facility B will automatically convert into a non-revolving term credit facility that will mature six months from that date. The operating credit facility also allows the Corporation to request that the lenders provide up to $50 million of additional financing under Facility A or Facility B or a combination of the two facilities.

As of December 31, 2013, $72.7 million was available against the combined operating credit and demand overdraft facilities (December 31, 2012 - $125.0 million) and $nil (December 31, 2012 - $nil) was used to support outstanding letters of credit.

11. LONG-TERM DEBT (continued)

Borrowings under the Corporation's operating credit facilities bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin. The margin applied is based on FortisBC's debt ratings provided by its credit rating agencies. The demand overdraft facility bears interest at prime. The interest rate on the balance outstanding as at December 31, 2013 was 3.00 per cent.

Principal payments required over the next five years and thereafter are as follows:

($ millions)	
2014	171.3
2015	-
2016	81.0
2017	-
2018	-
Thereafter	460.0
	712.3

The Corporation has externally imposed capital requirements to which it is subject to that include interest coverage ratios and limitations on the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at December 31, 2013.

12. CAPITAL LEASE AND FINANCE OBLIGATIONS

($ millions)	**2013**	2012
Capital lease obligations	**306.2**	301.5
Finance obligation	**-**	11.4
	306.2	312.9
Less: current portion of capital lease obligations	**0.5**	0.5
	305.7	312.4

BPPA Capital Lease

On May 3, 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 Columbia Power Corporation ("CPC") and the Columbia Basin Trust ("CBT"). FortisBC 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, and operating expenses. The BPPA includes a market related price adjustment after 30 years of the 60-year term. Due to the fixed annual escalators, presently the interest expense on the capital lease obligation exceeds the required payments and therefore the capital lease obligation increases through 2024 and subsequently decreases for the remainder of the term. Approximately 94 per cent of the output from the 149 MW Brilliant hydroelectric plant is being purchased by FortisBC through the BPPA.

The BPPA lease obligation bears interest at a composite rate of 5.01 per cent. Of the $27.4 million (2012 - $27.2 million) of interest expense relating to the BPPA obligation and $4.9 million (2012 - $4.8 million) of depreciation expense relating to the BPPA capital lease asset, a total of $25.3 million (2012 - $24.8 million) was recognized in power purchase costs for 2013, as approved by the BCUC, with the balance of $7.0 million (2012 - $7.2 million) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

BTS Capital Lease

On July 15, 2003, the Corporation began operating the BTS, under an agreement the term of which expires in 2056 (the "BTS Obligation"). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating costs. The BTS Obligation bears interest at a composite rate of 8.64 per cent.

12. CAPITAL LEASE AND FINANCE OBLIGATIONS (continued)

Of the $2.1 million (2012 - $2.2 million) of interest expense relating to the BTS Obligation and $0.7 million (2012 - $0.7 million) of depreciation expense relating to the BTS capital lease asset, a total of $2.6 million (2012 - $2.6 million) was recognized in operating costs for 2013, as approved by the BCUC, with the balance of $0.2 million (2012 - $0.3 million) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

The present value of the minimum lease payments for both BTS and BPPA required over the next five years and thereafter are as follows:

($ millions)	BTS Lease	BPPA Lease	Total
2014	3.2	35.8	39.0
2015	3.2	36.4	39.6
2016	3.3	37.0	40.3
2017	3.3	37.7	41.0
2018	3.3	38.4	41.7
Thereafter	67.7	1,981.5	2,049.2
	84.0	2,166.8	2,250.8
Less: amounts representing imputed interest and executory costs	58.8	1,885.8	1,944.6
Total capital lease obligations	25.2	281.0	306.2
Less: current portion	0.5	-	0.5
Present value of minimum lease payments	**24.7**	**281.0**	**305.7**

Trail Office Finance Obligation

During the second quarter of 2013, the Corporation exercised its tenant's option per the lease agreement to purchase the Trail office building and subsequently issued a payment to purchase the asset through draws on its operating credit facilities on September 26, 2013. Accordingly, the finance obligation, regulated asset and item of property, plant and equipment, all recognized as a result of assessing the original lease arrangement as a failed sale-leaseback, have been derecognized and replaced with an item of property, plant and equipment as of September 30, 2013.

13. OTHER LIABILITIES

($ millions)	2013	2012
Asset retirement obligation	**2.4**	2.8
Other liabilities	**-**	0.9
	2.4	3.7

Asset Retirement Obligation

During 2010, FortisBC obtained sufficient information to recognize an ARO based on an estimate of the fair value and timing of estimated future expenditures associated with the removal of insulating oil in certain electrical equipment that is contaminated with polychlorinated biphenyls ("PCBs"). The determination of the ARO was based on PCB regulations under the *Canadian Environmental Protection Act, 1999* which govern the management and storage of PCBs as well as impose timelines for disposal based on certain criteria including type of equipment, in-use status and PCB-contamination thresholds. The Corporation must identify and remove certain levels of PCBs in certain of its electrical equipment assets by the end of 2014 and others by 2025 to be compliant with the PCB regulations.

Consistent with its accounting policy for AROs, FortisBC records an ARO liability in the period in which it is incurred if a reasonable estimate of fair value can be determined. The Corporation's ARO was based on a best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

13. OTHER LIABILITIES (continued)

Changes in the Corporation's AROs are summarized below:

($ millions)	**2013**	2012
Asset retirement obligation at beginning of year	**2.8**	3.9
Obligations incurred	**-**	-
Interest accretion	**0.1**	0.1
Expenditures	**(0.2)**	(0.1)
Revisions to estimates	**(0.3)**	(1.1)
Asset retirement obligation at end of year	**2.4**	2.8

The ARO has been recorded in other liabilities, while the asset retirement cost has been capitalized to property, plant and equipment (note 6). Actual costs incurred upon settlement of an ARO are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the ARO and the remaining balance is expected to be recognized as a regulatory asset or liability at that time.

The Corporation's recognition of certain revenues and expenses as a result of rate regulation differs from that otherwise recognized using US GAAP for entities not subject to rate regulation. The future amounts of the accretion expense associated with the ARO and future depreciation expense associated with the asset retirement cost will accumulate and be deferred as a regulatory asset to be recovered by customers in future rates. Upon recovery in rates, these deferred costs will be expensed.

Total estimated undiscounted future cash flows required to comply with the PCB regulations is approximately $2.8 million. These expenditures are expected to be incurred over the period from 2014 to 2025 as follows:

($ millions)	
2014	1.6
2015	0.1
2016	0.1
2017	0.1
2018	0.1
Thereafter	0.8
	2.8

The credit-adjusted risk-free discount rates used to calculate the present value of the above obligation ranges from 3.8 per cent to 5.5 per cent depending on the appropriate rate for the period over which the obligation is expected to be settled. There are uncertainties in estimating future asset retirement costs due to the use of assumptions. All factors used in estimating the Corporation's ARO represent management's best estimate of the costs required to meet existing legislation or regulations. 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.

14. SHARE CAPITAL

Authorized Share Capital

The Corporation is authorized to issue 500,000,000 common shares, with a par value of $100 each and 500,000,000 preferred shares, with a par value of $25 each, issuable in series.

Common Shares

Issued and outstanding common shares are as follows:

	2013		2012	
	Number of Shares	**Amount ($ millions)**	Number of Shares	Amount ($ millions)
Outstanding, beginning of year	**2,018,510**	**201.9**	2,018,510	201.9
Issued	**173,000**	**17.3**	-	-
Outstanding, end of year	**2,191,510**	**219.2**	2,018,510	201.9

During 2013, the Corporation issued 173,000 common shares for cash consideration of $17.3 million to partially refinance the City of Kelowna business acquisition (note 9).

15. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. The Corporation also provides post-employment benefits other than pensions for certain of its retired employees. The following is a summary of each type of plan:

Defined Benefit Pension Plans

The Corporation sponsors three defined benefit pension plans, one of which is closed to new entrants. 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 valuation of the defined benefit pension plans for funding purposes were as at December 31, 2010 and the date of the next required valuations are as of December 31, 2013.

Supplemental Plans

Certain employees are eligible to receive supplemental benefits. The supplemental plans provide pension benefits in excess of statutory limits and are unfunded.

Defined Contribution Plans

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's 2013 net benefit cost related to this arrangement was $1.0 million (2012 - $0.9 million).

Other Post-employment Benefits

The Corporation provides certain 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, health-care cost escalation. The most recent actuarial valuation was completed as at December 31, 2010 and the next required valuation is as at December 31, 2013.

15. EMPLOYEE FUTURE BENEFITS (continued)

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2013**	2012	**2013**	2012
Change in fair value of plan assets				
Balance, beginning of year	**128.2**	116.0	**-**	-
Actual return on plan assets	**16.5**	9.0	**-**	-
Corporation contributions	**5.3**	6.7	**0.6**	0.6
Member contributions	**2.2**	3.5	**-**	-
Benefits payments	**(8.5)**	(7.0)	**(0.6)**	(0.6)
Fair value, end of year	**143.7**	128.2	**-**	-
Change in projected benefit obligation				
Balance, beginning of year	**180.1**	164.6	**29.4**	25.7
Member contributions	**2.2**	3.5	-	-
Current service cost	**5.8**	5.3	**1.6**	1.4
Interest cost	**7.2**	7.1	**1.1**	1.1
Benefits payments	**(8.5)**	(7.0)	**(0.6)**	(0.6)
Past service credit [1]	**(9.3)**	-	**-**	-
Actuarial (gain) loss	**(5.0)**	6.6	**(3.1)**	1.8
Balance, end of year [2]	**172.5**	180.1	**28.4**	29.4
Unfunded status	**(28.8)**	(51.9)	**(28.4)**	(29.4)

[1] The past service credit in 2013 is the result of a plan amendment made to a defined benefit pension plan in November 2013. The past service credit is equal to the decrease in the projected benefit obligation for this plan due to the plan amendment as measured at November 30, 2013 using a discount rate of 4.5 per cent and all other assumptions consistent with those used as at December 31, 2013.

[2] The accumulated benefit obligation for defined benefit pension plans, which does not include provision for future salary increases, was $162.0 million (2012 - $161.7 million).

15. EMPLOYEE FUTURE BENEFITS (continued)

The following table summarizes the employee future benefit liabilities and their classification in the consolidated balance sheets.

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2013**	2012	**2013**	2012
Accounts payable and other current liabilities (note 10)	**0.1**	0.2	**0.7**	0.6
Pension and other post-employment benefits	**28.7**	51.7	**27.7**	28.8
Net liabilities	**28.8**	51.9	**28.4**	29.4

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2013**	2012	**2013**	2012
Service costs	**6.1**	5.5	**1.6**	1.4
Interest costs	**7.2**	7.1	**1.1**	1.1
Expected return on plan assets	**(8.4)**	(8.0)	**-**	-
Amortization:				
Actuarial losses	**4.0**	4.0	**0.4**	0.4
Past service costs	**(0.1)**	0.1	**-**	-
Regulatory adjustment	**(4.6)**	(3.8)	**0.4**	0.5
Net benefit cost	**4.2**	4.9	**3.5**	3.4

Defined Benefit Pension Plan Assets

As at December 31, 2013 and 2012 the assets of the Corporation's defined benefit pension plans were invested on a weighted average as follows:

	Target Allocation	2013	2012
Equities	**50% - 60%**	**56%**	54%
Fixed income	**30% - 40%**	**31%**	34%
Real estate	**0% - 20%**	**13%**	12%
		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.

15. EMPLOYEE FUTURE BENEFITS (continued)

The fair value measurements of the Corporation's defined benefit pension plan assets by fair value hierarchy level, which are described in further detail in note 19 "Fair Value Measurement", are as follows:

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
($ millions)				
Canadian equities	**33.8**	**-**	**-**	**33.8**
Foreign equities	**46.4**	**-**	**-**	**46.4**
Fixed income	**-**	**44.2**	**-**	**44.2**
Real estate	**-**	**-**	**19.3**	**19.3**
	80.2	**44.2**	**19.3**	**143.7**

2012	Level 1	Level 2	Level 3	Total
($ millions)				
Canadian equities	33.5	-	-	33.5
Foreign equities	35.9	-	-	35.9
Fixed income	-	43.0	-	43.0
Real estate	-	-	15.8	15.8
	69.4	43.0	15.8	128.2

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, 2013 and 2012.

Real Estate

($ millions)	**2013**	2012
Balance, beginning of year	**15.8**	7.7
Actual return on plan assets:		
Relating to assets still held at the reporting date	**0.9**	0.9
Relating to assets sold during the period	**0.9**	0.1
Purchases, sales and settlements	**1.7**	7.1
Balance, end of year	**19.3**	15.8

There were no transfers into or out of Level 3 during the years ended December 31, 2013 and 2012.

15. EMPLOYEE FUTURE BENEFITS (continued)

Significant Actuarial Assumptions

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2013	2012	**2013**	2012
Projected benefit obligation				
Discount rate as at December 31	**4.75%**	4.00%	**4.75%**	4.00%
Rate of compensation increase	**3.25%**	3.25%	**-**	-
Net benefit cost				
Discount rate as at January 1	**4.00%**	4.25%	**4.00%**	4.25%
Expected rate of return on plan assets [1]	**6.50%**	6.75%	**-**	-

[1] Developed by management with assistance from an independent actuary using a best-estimate of expected returns, volatilities and correlations for each class of assets. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

The assumed health care cost trend rates for OPEB plans are as follows:

	2013	2012
Health care trend rate:		
Initial rate during first year	**7.00%**	7.50%
Annual rate of decline in trend rate	**0.5%**	0.5%
Ultimate health care cost trend rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2018

A one per cent change in assumed health care cost trend rates would have the following effects on the Corporation's OPEB plans:

2013	**1% Increase In Rate**	**1% Decrease In Rate**
($ millions)		
Increase (decrease) in benefit obligation	2.7	(2.1)
Increase (decrease) in service and interest costs	0.3	(0.2)

15. EMPLOYEE FUTURE BENEFITS (continued)

The following table provides the components recognized as the change in the regulatory asset (note 8) during the year that would otherwise have been recognized in other comprehensive income for the years ended December 31, 2013 and 2012.

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2013**	2012	**2013**	2012
Net actuarial (gain) losses	**(13.4)**	5.4	**(3.1)**	1.8
Past service credit	**(9.3)**	-	**-**	-
Amortization of actuarial losses	**(4.0)**	(4.0)	**(0.4)**	(0.4)
Amortization of past service credit (costs)	**0.1**	(0.1)	**-**	-
(Decrease) increase in regulatory asset	**(26.6)**	1.3	**(3.5)**	1.4

The following table provides the components of regulatory assets that would otherwise have been recognized in AOCI and have not yet been recognized as components of net periodic benefit cost.

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2013**	2012	**2013**	2012
Regulatory asset, beginning of year	**(54.7)**	(53.4)	**(8.5)**	(7.1)
Net actuarial gain (losses)	**13.4**	(5.4)	**3.1**	(1.8)
Past service credit	**9.3**	-	**-**	-
Amortization of actuarial losses	**4.0**	4.0	**0.4**	0.4
Amortization of past service (credit) costs	**(0.1)**	0.1	**-**	-
Regulatory asset, end of year	**(28.1)**	(54.7)	**(5.0)**	(8.5)

The defined benefit pension and OPEB amounts that would otherwise have been recognized in AOCI of $28.1 million (2012 - $54.7 million) and $5.0 million (2012 - $8.5 million), respectively, have been deferred as a regulatory asset (note 8).

Net actuarial losses of $2.2 million and past service credit of $0.9 million are expected to be amortized from regulatory assets into pension net benefit costs during 2014. Net actuarial losses of $0.2 million are expected to be amortized from regulatory assets into OPEB net benefit costs during 2014.

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

($ millions)	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2014	7.2	0.7
2015	7.6	0.8
2016	8.0	0.8
2017	8.3	0.9
2018	8.6	1.0
2019-2023	49.1	5.7
	88.8	**9.9**

See note 22 “Commitments” for expected defined benefit pension funding contributions.

16. FINANCE CHARGES

($ millions)	**2013**	2012
Interest on long-term debt	**38.7**	38.9
Interest on short-term debt	**0.7**	0.5
Amortization of deferred financing costs	**0.4**	0.4
AFUDC - debt component	**(0.9)**	(0.9)
	38.9	38.9

17. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

($ millions)	**2013**	2012
Interest paid	**41.3**	35.6
Income taxes paid	**5.5**	10.3

Significant Non-Cash Transactions

($ millions)	**2013**	2012
Capital accruals	**(3.1)**	(1.3)
Deferred income tax liability	**15.1**	11.0
BPPA lease costs regulatory asset	**(7.0)**	(7.2)
Pension and OPEB unrecognized actuarial losses and past service costs regulatory asset	**30.1**	(2.7)

Changes in Non-Cash Working Capital

($ millions)	**2013**	2012
Accounts receivable	**(12.5)**	(0.3)
Prepaid expenses	**-**	(0.1)
Current regulatory assets and liabilities	**(4.1)**	(5.7)
Materials and supplies	**(0.1)**	(0.1)
Accounts payable and other current liabilities	**1.6**	(0.2)
Income taxes payable	**4.0**	(4.3)
	(11.1)	(10.7)
Changes in working capital attributable to:		
Operating activities	**(8.0)**	(9.4)
Investing activities included in capital expenditures - property, plant and equipment and intangible assets	**(3.1)**	(1.3)
	(11.1)	(10.7)

The non-cash investing activities balances as at December 31 were as follows:

($ millions)	**2013**	2012
Additions to property, plant and equipment and intangible assets included in current liabilities	**6.4**	9.5

18. INCOME TAXES

Deferred Income Taxes

Deferred income taxes are provided for temporary differences. Deferred income tax assets and liabilities comprised the following:

($ millions)	2013	2012
Deferred income tax liability (asset)		
Property, plant and equipment	**116.9**	102.1
Intangible assets	**4.6**	7.2
Regulatory assets	**9.1**	7.9
Regulatory liabilities	**(4.1)**	(2.7)
Deferred financing costs	**1.3**	1.3
Pension and OPEBs	**(3.2)**	(2.5)
Other	**(0.8)**	(1.5)
Net deferred income tax liability	**123.8**	111.8
Classification		
Current deferred income tax asset	**(5.2)**	(0.6)
Current deferred income tax liability	**3.2**	2.1
Long-term deferred income tax liability	**125.8**	110.3
Net deferred income tax liability	**123.8**	111.8

The net long-term deferred income tax liability as at December 31, 2013 is net of a $3.1 million (2012 - $nil) long-term deferred income tax asset in non-regulated operations related to the City of Kelowna business acquisition (note 9) and also includes a $1.6 million (2012 - $1.6 million) long-term deferred income tax liability related to other non-regulated operations.

The Canadian federal and BC provincial combined statutory rate changed from 25.0 per cent to 26.0 per cent effective April 1, 2013, resulting from legislation enacted in July 2013. As a result of this change, the statutory tax rate for the year ending December 31, 2013 was changed to 25.75 per cent. This change resulted in an increase in deferred income tax liabilities of approximately $6 million as at the date of enactment, the offset of which has been recognized in regulatory assets.

Provision for Income Taxes

($ millions)	2013	2012
Current income taxes expense	**11.9**	8.8
Deferred income taxes expense	**15.2**	11.0
Regulatory adjustment	**(15.1)**	(11.0)
	0.1	-
Income taxes expense	**12.0**	8.8

18. 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 25.75 per cent (2012 – 25.0 per cent) to earnings before income taxes as shown in the following table:

	2013	2012
Combined statutory income tax rate	**25.75%**	25.0%
($ millions)		
Statutory income tax rate applied to earnings before income taxes	**15.9**	14.5
Items capitalized for accounting but expensed for income tax purposes	**(3.6)**	(3.2)
Difference between capital cost allowance and amounts claimed for accounting purposes	**(4.1)**	(4.2)
Difference between regulatory accounting items and amounts claimed for tax purposes	**3.9**	2.2
Difference between employee future benefits paid and amounts expensed for accounting purposes	**0.4**	-
Other	**(0.5)**	(0.5)
Actual income taxes expense	**12.0**	8.8
Effective income tax rate	**19.5%**	15.2%

As at December 31, 2013, the Corporation had no non-capital or capital loss carryforwards. Taxation years 2008 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2008 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits. The Corporation does not believe that any open tax years could result in any adjustments that would be significant to the consolidated financial statements. The Corporation does not have any unrecognized tax benefits as at December 31, 2013 and as such has not accrued any associated interest or penalties.

19. FAIR VALUE MEASUREMENT

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. 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 purchase and normal sales exception, including certain of the Corporation's power purchase contracts.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets.

Level 2: Fair value determined using pricing inputs that are observable.

Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments reflect a point-in-time estimate 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.

19. FAIR VALUE MEASUREMENT (continued)

The carrying values of cash and cash equivalents, account receivable, energy management loans, accounts payable and short-term borrowings on the consolidated balance sheet of FortisBC approximate their fair values.

The following table summarizes the fair value measurements of the Corporation's long-term debt as of December 31, 2013 and 2012, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheet at its carrying value:

	2013		2012	
($ millions)	**Carrying Value**	**Estimated Fair value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1]	**625.0**	**712.7**	625.9	785.7

[1] Excludes operating credit facilities as the carrying values approximate their fair values.

The fair value of long-term debt is estimated using 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 the 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.

20. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business. The Corporation currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Corporation's operations.

Credit Risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, accounts receivable and energy management loans, the Corporation's credit risk is limited to the carrying value on the balance sheet.

The Corporation extends credit to customers in its role as a regulated electric utility service provider. Credit risk on accounts receivable is managed based on the terms and conditions of the Electric Tariff BCUC No.1 for Service in the West Kootenay and Okanagan Areas. The Corporation manages credit risk for its accounts receivable by requiring customer deposits or credit checks for new customers and by issuing notices, performing disconnections and using third party collection agencies for overdue accounts. The Corporation's credit risk is also mitigated through revenue requirement applications to the BCUC which include a forecast amount for uncollectible accounts receivable.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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 ability to arrange sufficient and cost-effective financing is subject to numerous factors, including 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.

To mitigate this risk, the Corporation has secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. FortisBC has authorized bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million unsecured demand overdraft facility as discussed further in note 11 "Long-Term Debt".

20. FINANCIAL RISK MANAGEMENT (continued)

The Corporation targets investment grade credit ratings to maintain capital market access at reasonable interest rates. In June 2013, Moody's Investors Service, Inc. ("Moody's") affirmed the long-term credit rating of the Corporation of Baa1, but changed its rating outlook from stable to negative. As at December 31, 2013, the Corporation's credit ratings were as follows:

Rating Agency	Rating	Debt Rated
DBRS	A (low), Stable Trend	Secured and Unsecured Debentures
Moody's	Baa1, Negative Outlook	Unsecured Debentures

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates or market interest rates.

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation realizes all of its sales and a significant majority of its expenses in Canadian dollars and is therefore not exposed to significant foreign exchange rate fluctuations.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's secured and unsecured debentures bear fixed interest rates, while the Corporation's operating credit facility and overdraft facility are subject to variable interest rates. Accordingly, the Corporation is exposed to variances in actual interest costs from those forecasted for rate-setting purposes.

21. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, ultimate parent and other related companies under common control 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:

($ millions)	**2013**	2012
Electricity revenue recovered from FEI (a)	**0.5**	0.5
Operating costs and other revenue charged to FortisBC Pacific (b)	**5.4**	8.9
Operating costs charged to FEI (c)	**3.4**	1.8
Operating costs charged to FortisBC Holdings Inc. ("FHI") (d)	**0.9**	0.5
	10.2	11.7

(a) The Corporation charged FEI, a related company under common control, for electricity sold.

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

(c) The Corporation charged FEI for management services.

(d) The Corporation charged FHI, a related company under common control, for management services.

21. RELATED PARTY TRANSACTIONS (continued)

Related Party Costs

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

($ millions)	**2013**	2012
Operating costs charged by Fortis (a)	**2.4**	2.5
Operating costs charged by FEI (b)	**2.7**	1.7
Operating costs charged by FHI (c)	**0.5**	0.6
Operating costs charged by FortisAlberta Inc. (“FAB”) (d)	**0.1**	0.1
Finance charges charged by Fortis (e)	**0.1**	-
	5.8	4.9

(a) The Corporation was charged by its ultimate parent, Fortis, for the fair value of stock-based compensation granted by Fortis and for corporate management services provided.

(b) The Corporation was charged by FEI for office rent and management services.

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

(d) The Corporation was charged by FAB, a related company under common control, for information technology and metering services.

(e) During the year ended December 31, 2013, the Corporation borrowed $34.0 million (2012- $nil) by way of three demand notes from Fortis. The demand notes were unsecured, due on demand and the Corporation was charged interest that approximated FortisBC’s cost of short term borrowing. The demand notes were repaid during the third quarter of 2013 with proceeds from draws on the Corporation’s operating credit facilities.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties, which are included in accounts payable and other current liabilities on the consolidated balance sheets, are as follows:

As at December 31	**2013**		2012	
($ millions)	**Amount Due from**	**Amount Due to**	Amount Due from	Amount Due to
FortisBC Pacific	**0.2**	**-**	0.3	-
FEI	**0.6**	**0.3**	0.4	0.3
FHI	**0.1**	**0.2**	0.1	0.2
Officer (a)	**0.1**	**-**	0.1	-
	1.0	**0.5**	0.9	0.5

(a) The amount due from an officer of the Corporation represents a stock option exercise loan due from David Bennett, Vice President, Operations Support, General Counsel and Corporate Secretary. The loan is secured by the share certificates held by the officer, bears interest equal to the amount of dividends received on the shares, and is due within 10 years of the grant date or within one year following cessation of employment, whichever occurs first.

22. COMMITMENTS

In addition to commitments involved with principal payments and maturing issues of debt (note 11), capital lease and finance obligations (note 12) and ARO expenditures (note 13), minimum payments for commitments required over the next five years and thereafter are as follows:

($ millions)	Power Purchase Obligations	Interest on Long-term Debt	Operating Leases	Pension Funding Obligations	Total
2014	12.6	37.2	0.4	5.4	55.6
2015	37.7	29.5	0.3	-	67.5
2016	52.5	28.4	0.3	-	81.2
2017	51.6	27.4	0.3	-	79.3
2018	49.7	27.4	-	-	77.1
Thereafter	2,730.5	579.9	-	-	3,310.4
	2,934.6	**729.8**	**1.3**	**5.4**	**3,671.1**

Power Purchase Obligations

In addition to the BPPA which has been recognized as a capital lease obligation (note 12), the Corporation's power purchase obligations consist of the following:

Powerex Capacity Agreement

During September 2010, FortisBC entered into an agreement to purchase fixed price, winter capacity purchases through to February 2016 from Powerex Corp., a wholly owned subsidiary of BC Hydro ("BCH"). As per the agreement, if FortisBC brings any new resources, such as capital or contractual projects, on-line prior to the expiry of this agreement, FortisBC may terminate this contract any time after July 1, 2013 with a minimum of three months written notice to Powerex Corp. The capacity being purchased under this agreement does not relate to a specific plant. The agreement was accepted by the BCUC in September 2010.

Brilliant Expansion Capacity and Energy Purchase Agreement

During November 2012, FortisBC entered into an agreement to purchase capacity and energy from CPC acting on behalf of the Brilliant Expansion Power Corporation from January 2013 through to December 2017. The capacity and energy being purchased under this agreement do not constitute a significant portion of the output of a specific plant. The agreement was accepted by the BCUC in December 2012.

Waneta Expansion Capacity Agreement ("WECA")

During October 2010, FortisBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility currently under construction adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The Waneta Expansion is owned, being developed and will be operated by a limited partnership, the limited partners of which are FortisBC's ultimate parent, Fortis, which owns a 51 per cent interest, and a wholly-owned subsidiary of each of CPC and CBT. It allows FortisBC to purchase capacity over 40 years upon completion of the Waneta Expansion, which is expected to be in 2015. The WECA was accepted for filing as an energy supply contract by the BCUC in May 2012.

Other Agreements

During 2013, FortisBC entered into various agreements to purchase fixed price, winter capacity and energy purchases through to 2015. The purchases under these agreements do not relate to specific plants.

22. COMMITMENTS (continued)

New BCH Power Purchase Agreement ("New PPA")

Excluded from power purchase obligations is the New PPA, which FortisBC entered into during May 2013, as it is still subject to BCUC review and approval. An executed version of the New PPA was submitted by BCH to the BCUC on May 24, 2013. FortisBC entered into the agreement 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 New PPA does not change the basic parameters of the BCH Power Purchase Agreement which expired on September 30, 2013. In the interim, until the New PPA is approved by the BCUC, FortisBC and BCH have agreed to continue under the terms set out in the expired BCH Power Purchase Agreement. The power purchases in the interim period of 2013 have been approved for recovery in customer rates. The power purchases from the New PPA are expected to be recovered in future customer rates. The capacity and energy to be purchased under this agreement do not relate to a specific plant.

Operating Leases

FortisBC has entered into operating leases for certain building space and vehicles.

Building Leases

During the year ended December 31, 2007, the Corporation entered into an agreement to lease an office building owned by a related company, FEI. The initial five-year term of the lease commenced January 1, 2008, and provided two options to renew the lease for additional five-year terms. The Corporation exercised the first option effective January 1, 2013, which requires annual payments of $0.3 million. In addition, the Corporation has entered into leases for various office and warehouse space in the Kelowna area with terms of one to two years.

Vehicle Leases

The Corporation has entered into vehicle leases which generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property, and typically have a lease term of two to five years.

Pension Funding Obligations

The Corporation sponsors three defined benefit pension plans, one of which is closed to new entrants. Under the terms of these plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The contributions are based on estimates provided under the latest completed actuarial valuations. If the actuarial valuation falls in the next twelve months, then the Corporation has provided for an estimate of the contributions for the upcoming year. Employee defined benefit pension plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. The Corporation has forecast capital expenditures of approximately $130 million before CIACs and including cost of removal for 2014. Additionally, the Corporation has a commitment to purchase fibre optic communication cable for approximately $2.5 million in 2019.

23. CONTINGENCIES

Legal Proceedings

The Province of BC has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC dated August 2, 2005. The Province of BC has disclosed that its claim includes approximately $15 million in damages plus prejudgment interest but that it has not fully quantified its damages. FortisBC and its insurers continue to defend the claim by the Province of BC. The outcome cannot be reasonably determined or estimated at this time, and accordingly no amount has been accrued in the financial statements.

The Province of BC filed a claim in the BC Supreme Court on June 8, 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, BC in 2010. The Province alleges in its claim that the dam failure was caused by the defendants', who include FortisBC, use of a road on top of the dam. The Province estimates its damages, and the damages of the homeowners on whose behalf it is claiming, to be approximately $15 million. FortisBC has not been served, however has retained counsel and has notified its insurers. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

24. RECOVERABILITY OF LONG-LIVED ASSETS

The Corporation's non-regulated WPP hydroelectric power plant, which has a net book value of approximately $10 million at December 31, 2013, has a power supply agreement with BCH for the sale of electricity. Subject to a five month notice of termination by BCH, which has not yet been issued, this agreement could expire. Accordingly, the Corporation is exposed to the risk that it will not be able to sell the power from the WPP plant beyond the expiry of the current contract on similar terms. A quantitative impairment assessment on the plant has been performed as of December 31, 2013 assuming that the terms and pricing of the current power supply agreement will extend out into the foreseeable future. The impairment assessment which was based on undiscounted cash flows indicated that the carrying amount of the WPP plant assets was expected to be recovered as at December 31, 2013. It is possible that the estimate of undiscounted cash flows may change in the future as a result of on-going power supply agreement negotiations with BCH which could require a write down of the WPP plant assets to fair value.