FortisBC Inc.
Management Discussion & Analysis
For the Year Ended December 31, 2013
Dated February 6, 2014

The following FortisBC Inc. ("FortisBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2013 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and is presented in Canadian dollars unless otherwise specified. The MD&A should be read in conjunction with the Corporation's annual audited consolidated financial statements and notes thereto for the year ended December 31, 2013, with 2012 comparatives, prepared in accordance with US GAAP.

FORWARD LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from its parent FortisBC Pacific Holdings Inc. ("FortisBC Pacific"), and debenture issues; the Corporation's expectation for employee future benefit costs, the forecast average rate base for 2014, and the expectation that power purchases from the New BC Hydro Power Purchase Agreement will be recovered in customer rates.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2018 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; absence of cyber-security failure; no significant decline in interest rates; continued electricity demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit rating agencies; that counterparties do not default on power supply contracts; no weather related demand loss; and, climate change does not reduce water flows.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operating, maintenance and expansion risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; power supply purchase and sale contracts risk; weather related demand loss risk; climate change risk; and, other risks described in the Corporation's most recent Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

CORPORATE OVERVIEW

FortisBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 163,800 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity.

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.

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.

FortisBC operates primarily under a cost of service regulation as prescribed by the BCUC. The Corporation applies to the BCUC for approval of annual revenue requirements based on forecast costs of service, including, but not limited to, power purchases, operating expenses, depreciation and amortization, income taxes, interest on debt and a return on equity. In the past, the regulatory framework included some performance-based rate setting attributes.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), a diversified, international distribution utility holding corporation having investments in distribution, transmission and generation utilities, as well as commercial real estate and hotel operations.

REGULATION

2012-2013 Revenue Requirements Application ("2012-2013 RRA"), 2012-2013 Capital Expenditure Plan ("CEP") and Integrated System Plan ("ISP")

In August 2012, the BCUC issued its decision on FortisBC's 2012-2013 RRA, its 2012-2013 CEP and its ISP. The ISP included the Corporation's Resource Plan, Long-Term Capital Plan and Long-Term Demand Side Management Plan. FortisBC had requested and the BCUC approved the interim refundable 1.5 per cent customer rate increase, effective January 1, 2012, as approved by the BCUC in November 2011, be maintained for the remainder of 2012. The difference between the final approved increase in 2012 customer rates of 0.6 per cent and the interim increase in customer rates of 1.5 per cent was approved for deferral as a regulatory liability in 2012 and was used in 2013 to reduce the increase in customer rates to 4.2 per cent, effective January 1, 2013. The rate increases are required due to ongoing investment in infrastructure, higher cost of capital and increased power purchase costs.

Allowed Return on Equity ("ROE") and Capital Structure

In February 2012, the BCUC established that a Generic Cost of Capital ("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.

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 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 allowance for funds used during construction ("AFUDC") during the first quarter of 2013 as a result of this decision.

City of Kelowna Electrical Utility Business Acquisition

FortisBC purchased the City of Kelowna's (the "City") electrical utility business on March 29, 2013 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 purchase price was allocated as $37.8 million to property, plant and equipment, $3.2 million to deferred income tax asset and $14.1 million to goodwill. 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.

Advanced Metering Infrastructure ("AMI")

The AMI project proposes to improve and modernize FortisBC's electrical grid by exchanging its manually read meters with advanced meters. In July 2012, the Corporation filed its AMI application with the BCUC and a regulatory review by the BCUC and various interveners concluded with an oral hearing in March 2013.

The BCUC issued a decision in July 2013 which approved capital expenditures of approximately $51 million for AMI. As a condition of the BCUC approval, FortisBC agreed to file an application for an opt-out provision which would require the incremental cost of opting-out of AMI to be borne by customers who choose to opt-out. The Corporation filed the Radio-Off Meter Option Application in August 2013 and received BCUC approval in December 2013.

FortisBC Application for Multi-year Performance Based Ratemaking Plan for 2014 to 2018

In July 2013, FortisBC filed an application with the BCUC for a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018. Pursuant to an Evidentiary Update filed on October 18, 2013, the application assumes a forecast average rate base for FortisBC of approximately $1,192 million for 2014 and requests approval of a customer rate increase for 2014 of 3.3 per cent determined under a formula approach for operating and capital costs, and a continuation of this rate setting methodology for a further four years. Effective January 1, 2014, the BCUC has provided approval for a 3.3 per cent interim refundable rate increase. The regulatory process to review the application will continue through 2014, with a decision expected in the third quarter of 2014.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter Ended December 31			Year Ended December 31		
	2013	2012	Variance	**2013**	2012	Variance
Electricity sales (GWh)	**892**	835	**57**	**3,241**	3,178	**63**
($ millions)						
Electricity revenue	**86.8**	75.0	**11.8**	**310.4**	285.0	**25.4**
Other revenue (expenses)	**(1.8)**	2.6	**(4.4)**	**(1.7)**	8.4	**(10.1)**
	85.0	77.6	**7.4**	**308.7**	293.4	**15.3**
Power purchase costs	**25.4**	21.9	**3.5**	**83.3**	76.0	**7.3**
Operating costs	**21.5**	20.5	**1.0**	**76.8**	73.3	**3.5**
Depreciation and amortization	**12.4**	11.9	**0.5**	**49.7**	48.5	**1.2**
	59.3	54.3	**5.0**	**209.8**	197.8	**12.0**
Other income [1]	**0.4**	0.2	**0.2**	**1.6**	1.1	**0.5**
Finance charges [2]	**9.8**	9.6	**0.2**	**38.9**	38.9	**-**
Income taxes	**3.3**	2.1	**1.2**	**12.0**	8.8	**3.2**
Net earnings	**13.0**	11.8	**1.2**	**49.6**	49.0	**0.6**

[1] Includes equity component of AFUDC.

[2] Net of debt component of AFUDC.

Net Earnings

Net earnings for the fourth quarter ended December 31, 2013 were $13.0 million, an increase of $1.2 million from the $11.8 million of net earnings for the fourth quarter of 2012. For the year ended December 31, 2013, net earnings were $49.6 million, an increase of $0.6 million from the $49.0 million of net earnings for the same period in 2012.

The Corporation's results of operations for 2013 reflect the BCUC's decision on the first stage of the GCOC Proceeding; the interim allowed ROE of FortisBC decreased to 9.15 per cent (previously 9.9 per cent) effective January 1, 2013, while the deemed equity component of capital structure remained unchanged at 40 per cent. The decision decreased net earnings for the quarter and year ended December 31, 2013 by approximately $1.0 million and $3.6 million, respectively. Electricity rates for 2012 reflect an allowed ROE of 9.9 per cent and a deemed equity component of capital structure of 40 per cent as approved by the BCUC in the 2012-2013 RRA decision.

The 2012-2013 RRA is primarily cost of service with certain variances from the forecast used for rate setting purposes to be flowed back to/recovered from customers in future rates. Effective January 1, 2012, variances for electricity revenue and power purchase costs are recognized in deferral accounts to be flowed back to customers in future rates and therefore these variances do not have an impact on net earnings in either 2012 or 2013.

The increase in net earnings for both comparable periods was primarily due to the following:

- an increase in rate base driven by ongoing investment in electricity infrastructure, which includes the City of Kelowna electrical utility business acquired on March 29, 2013,
- the decrease in interest expense as compared to the forecasted amounts used to set rates was greater in 2013 than 2012, and
- the decrease in depreciation as compared to the forecasted amounts used to set rates was greater in 2013 than 2012,

partially offset by,

- the decrease in FortisBC's interim allowed ROE as a result of the BCUC's decision on the first stage of the GCOC Proceeding, and
- an increase in income tax expense driven primarily by lower tax timing differences.

In addition to the factors described above, the increase in net earnings for the quarter ended December 31, 2013 as compared to the same period in 2012 was also partially offset by an increase in operating costs due to the timing of expenditures.

In addition to the factors described above, the increase in net earnings for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was also partially offset by the increase in pole attachment revenue, included in other revenue, as compared to the forecasted amounts used to set rates, was higher in 2012 than 2013.

Electricity Sales

The increase in electricity sales for both comparable periods was primarily due to colder than normal weather in the fourth quarter of 2013 as compared to warmer than normal weather in the fourth quarter of 2012.

Electricity Revenue

The increase in electricity revenue for both comparable periods was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013, the increased revenue resulting from the City of Kelowna electrical utility business acquired on March 29, 2013 and an increase in electricity sales.

Other Revenue (Expenses)

Other revenue consists of management fees for third party contract work, pole attachment revenue, wheeling revenue and other miscellaneous rental revenues as well as certain flow-through adjustments for variances from the forecast used to set rates.

For the quarter and the year ended December 31, 2013, other revenue was in an expense position due to the significant increase in regulatory flow-through adjustments for variances from the forecasts used to set rates. The decrease in other revenue for both comparable periods was primarily due to the following:

- an increase in regulatory flow-through variance deferrals owing to customers which were recognized in 2013 as compared to the same periods for 2012, which includes the effects of the decision on the first stage of the GCOC Proceeding and the benefits owing back to customers arising from the acquisition of the City of Kelowna electrical utility business,
- a decrease in the amortization of prior year flow-through adjustments being flowed back to customers as other revenue in 2013, as compared to the same periods for 2012, and
- a decrease in management fees resulting from lower third party contract work.

In addition to the factors described above, the decrease in other revenue for the year ended December 31, 2013 was also attributable to a decrease in pole attachment revenue as compared to the year ended December 31, 2012.

Power Purchase Costs

Power purchase costs represent the cost of purchasing energy and capacity from third parties. Hydroelectric generating facilities owned by FortisBC generate approximately 45 per cent of the energy and 30 per cent of the peak capacity necessary to meet existing customer demand.

The increase in power purchase costs for both comparable periods was primarily due to higher average power purchase prices and increased electricity sales.

Operating Costs

Operating costs include operating and maintenance expenses, property taxes, water fees and wheeling. The increase in operating costs for both comparable periods was primarily due to increased operating and maintenance expenses resulting from increased labour costs and general inflationary increases, increased property taxes due to a larger assessment base and increased wheeling fees associated with higher power purchase costs.

Depreciation and Amortization

The increase in depreciation and amortization for both comparable periods was primarily due to the increase in the depreciable asset base of the Corporation as compared to the same period in the prior year.

Other Income

Other income includes the equity component of AFUDC and interest income. The increase in other income for both comparable periods was primarily due to an increase in the equity component of AFUDC recognized as directed by the BCUC as compared to the same periods in 2012.

Finance Charges

The increase in finance charges for the fourth quarter of 2013 was primarily due to the increase in interest on the operating credit facilities used to finance the ongoing capital program and in part to finance the acquisition of the City of Kelowna electrical utility business, partially offset by the repayment of the higher interest bearing Series F $15 million debenture, which matured in the fourth quarter of 2012.

Finance charges for the year ended December 31, 2013 were consistent with the same period in 2012, primarily due to the increases identified in the quarter, offset by the repayment of the higher interest bearing Series F $15 million debenture, which matured in the fourth quarter of 2012.

Income Taxes

In the third quarter of 2013, the Corporation revised its estimated year-to-date income tax expense to reflect a change in the Canadian federal and BC provincial combined statutory rate from 25.0 per cent to 26.0 per cent effective April 1, 2013, resulting from legislation enacted in July 2013. Income tax expense reported for both the fourth quarter and year ended December 31, 2013 reflect this change in the statutory tax rate.

The increase in income tax expense for both comparable periods was primarily due to an increase in earnings before income taxes and lower income tax timing differences in 2013 as compared to the same periods in 2012.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2013 compared to December 31, 2012:

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Accounts receivable	**12.5**	The increase was primarily due to an increase in unbilled revenue which resulted from increased electricity sales in the fourth quarter of 2013, increased revenue attributable to the 2013 customer rate increase and the increased revenue resulting from the City of Kelowna electrical utility business acquisition.
Property, plant and equipment	**51.0**	The increase was primarily due to $37.8 million in property, plant and equipment acquired in the purchase of the City of Kelowna electrical utility business and capital expenditures of $64.8 million incurred during the year, less: • depreciation expense of $40.2 million, • contributions in aid of construction of $3.1 million received, and • other net adjustments primarily related to the Corporation's capital lease assets, the offsets of which have been recognized in regulatory assets.
Goodwill	**14.1**	The increase was due to the City of Kelowna electrical utility business acquisition.

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Current and long-term debt	**51.4**	The increase was primarily due to draws on credit facilities used to finance the ongoing capital program and in part to finance the acquisition of the City of Kelowna electrical utility business.
Pension and other post-employment benefits	**(24.1)**	The decrease was primarily due to increased investment returns, an increase in discount rates and a plan amendment, partially offset by changes in assumed rates of mortality.
Regulatory liabilities	**10.6**	The increase was primarily due to an increase in flow-through variance deferrals owing to customers recognized in 2013, including power purchase variances, the effects of the decision on the first stage of the GCOC Proceeding and the benefits owing back to customers arising from the acquisition of the City of Kelowna electrical utility business.
Deferred income taxes [1]	**12.0**	The increase was primarily due to an increase in tax timing differences relating to capital expenditures, the offset of which has been recognized in regulatory assets, partially offset by a deferred income tax asset associated with the acquisition of the City of Kelowna electrical utility business. In the third quarter of 2013, the Corporation revised its estimated deferred income tax liabilities to reflect a change in the Canadian federal and BC provincial combined statutory rate from 25.0 per cent to 26.0 per cent effective April 1, 2013, resulting from legislation enacted in July 2013. Deferred income taxes were adjusted to reflect this change, which resulted in an increase in deferred income tax liabilities of approximately $6 million, the offset of which has been recognized in regulatory assets.
Common shares	**17.3**	The increase was due to the issuance of common shares to refinance the goodwill and related deferred income tax asset associated with the acquisition of the City of Kelowna electrical utility business.

[1] Net of deferred income tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Years Ended December 31	**2013**	2012[1]	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**98.1**	87.1	11.0
Investing activities	**(121.9)**	(62.8)	(59.1)
Financing activities	**22.5**	(22.5)	45.0
Net increase (decrease) in cash and cash equivalents	**(1.3)**	1.8	(3.1)

[1] Certain comparative figures have been reclassified to comply with the current period's classification.

Operating Activities

Cash provided by operating activities, which included the impact of changes in non-cash operating working capital, was $11.0 million higher in 2013 compared to 2012. The increase was primarily due to changes in long-term regulatory assets and liabilities and non-cash operating working capital.

Investing Activities

Cash used for investing activities, which included the impact of changes in investing working capital on net capital expenditures, was $59.1 million higher in 2013 compared to 2012 primarily due to the acquisition of the City of Kelowna electrical utility business in the first quarter of 2013.

Financing Activities

Cash provided by financing activities was $45.0 million higher in 2013 compared to 2012. The variance was primarily due to increased draws on operating credit facilities used to finance the ongoing capital program and in part to finance the acquisition of the City of Kelowna electrical utility business, common shares issued during the third quarter of 2013, and the repayment of the Series F $15.0 million secured debenture in the fourth quarter of 2012, partially offset by higher dividends paid in 2013 as compared to the same period in 2012.

During 2013, the Corporation paid dividends of $46.0 million (2012 - $24.0 million) to its parent, FortisBC Pacific.

On July 30 2013, the Corporation issued common shares for proceeds of $17.3 million (2012 - $nil) to its parent, FortisBC Pacific. The equity was issued to refinance the goodwill and related deferred income tax asset associated with the acquisition of the City of Kelowna electrical utility business.

Contractual Obligations

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

As at December 31, 2013	Total	Due Within 1 Year	Due In Year 2	Due In Year 3	Due In Year 4	Due In Year 5	Due After 5 Years
($ millions)							
Power purchases (a)	2,934.6	12.6	37.7	52.5	51.6	49.7	2,730.5
Capital lease obligations (b)	2,250.8	39.0	39.6	40.3	41.0	41.7	2,049.2
Interest on long-term debt	729.8	37.2	29.5	28.4	27.4	27.4	579.9
Debt retirement	712.3	171.3	-	81.0	-	-	460.0
Defined benefit pension funding contributions (c)	5.4	5.4	-	-	-	-	-
Other (d)	6.6	2.0	0.4	0.4	0.4	0.1	3.3
Totals	6,639.5	267.5	107.2	202.6	120.4	118.9	5,822.9

a) Power purchase obligations of FortisBC include:

- 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 Columbia Power Corporation ("CPC") and Columbia Basin Trust ("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.
- Excluded from contractual obligations is the New BCH Power Purchase Agreement ("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.

b) Capital lease obligations, which are inclusive of principal payments, imputed interest and executory costs, are as follows:

- On May 3, 1996 an order was granted by the BCUC approving the 60-year Brilliant Power Purchase Agreement ("BPPA") for the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by the CPC and the CBT. 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. FortisBC has accounted for this arrangement as a capital lease asset and obligation in its financial statements.

- On July 15, 2003, the Corporation began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056. The agreement provides that FortisBC will pay the owners a charge related to the recovery of the capital cost of the BTS and related operating costs. FortisBC has accounted for this arrangement as a capital lease asset and obligation in its financial statements.

c) The Corporation sponsors three contributory 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.

d) Included in other contractual obligations are building leases, vehicle leases, asset retirement obligations and a commitment to purchase fibre optic communication cable for approximately $2.5 million in 2019.

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 on September 26, 2013. As a result, the finance obligation previously disclosed as a contractual obligation has been removed for the year ended December 31, 2013.

Capital Structure

The Corporation's principal business of regulated electricity generation, transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed capital structure currently approved by the BCUC at 40 per cent equity and 60 per cent debt (2012 – 40 per cent equity and 60 per cent debt). As part of stage two of the GCOC Proceeding the capital structure of the Corporation will be reviewed.

Credit Ratings

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

The following table discloses the Corporation's debenture credit ratings as of December 31, 2013.

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

In June 2013, Moody's affirmed the long-term credit rating for FortisBC of Baa1, but changed its rating outlook from stable to negative.

Projected Capital Expenditures

FortisBC has estimated 2014 capital expenditures before contributions in aid of construction and including cost of removal of approximately $130 million. The 2014 capital expenditures are necessary to provide service, public and employee safety and reliability of supply of electricity to the Corporation's customer base.

Cash Flow Requirements

The Corporation's working capital requirements fluctuate seasonally based on electricity consumption. Given the regulated nature of its business, the Corporation is able to maintain negative working capital balances. The Corporation maintains adequate committed credit facilities.

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

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

Credit Facilities

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.

The following summary outlines the Corporation's bank credit facilities:

As at December 31	**2013**	2012
($ millions)		
Operating credit facility	**150.0**	150.0
Demand overdraft facility	**10.0**	10.0
Draws on operating credit facility	**(78.9)**	(35.0)
Draws on overdraft facility	**(8.4)**	-
Letters of credit outstanding	**-**	-
Bank credit facilities available	**72.7**	125.0

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.

Debentures

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.

The final payment on the Walden Power Partnership mortgage was made on October 31, 2013 and the Corporation repaid the Series F $15 million secured debenture in October 2012.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2013, the Corporation had no material off-balance sheet arrangements.

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:

Years Ended December 31	**2013**	2012
($ millions)		
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.

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:

Years Ended December 31	**2013**	2012
($ millions)		
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.

BUSINESS RISK MANAGEMENT

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

Regulatory Approval and Rate Orders

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

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

Rate applications that reflect cost of service and establish revenue requirements may be subject to negotiated settlement procedures in BC. Failing a negotiated settlement, rate applications may be pursued through a public hearing process. The BCUC has approved rates for 2012 and 2013, with 2013 rates interim pending a determination in Stage 2 of the BCUC GCOC Proceeding. A decision from the BCUC on the Corporation's rates for 2014 and the proposed rate setting methodology for the next five years is expected in the third quarter of 2014. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

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

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

Continued Reporting in Accordance with US GAAP

In January 2014 the Ontario Securities Commission ("OSC") issued a relief order which permits the Corporation to continue to prepare its financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation. The OSC relief order effectively replaces and extends the OSC's previous relief order, which was due to expire effective January 1, 2015. The BCUC had previously approved the Corporation's request to adopt US GAAP for regulatory purposes until December 31, 2014 and the Corporation intends to apply to the BCUC during 2014 to maintain US GAAP for regulatory purposes until December 31, 2018 or the earlier of (iii) above.

If the OSC relief does not continue as detailed above, the Corporation would then be required to become a U.S. Securities and Exchange Commission ("SEC") Issuer in order to continue reporting under US GAAP or adopt IFRS. The IASB has recently released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent mandatory standard to be applied by entities with activities subject to rate regulation. In the absence of a permanent standard for rate-regulated activities, the application of IFRS at that time, could result in volatility in the Corporation's earnings as compared to that which would otherwise be recognized under US GAAP.

Asset Breakdown, Operating & Maintenance and Expansion Risk

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

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

Environment, Health and Safety Matters

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

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

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

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

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

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

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

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

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

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance. See "Underinsured and Uninsured Losses" below.

Weather and Natural Disasters

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

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

Permits

The acquisition, ownership and operation of electricity businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and First Nations. The Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation's ability to generate electricity from its facilities on the Kootenay River and to receive its entitlement of capacity and energy under the second amended and restated Canal Plant Agreement dated for reference November 15, 2011 (the "Canal Plant Agreement") depends upon the maintenance of its water licences issued under the *Water Act* (British Columbia). In addition, water flows in the Kootenay River are governed under the terms of the Columbia River Treaty between Canada and the United States as well as the International Joint Commission's order for Kootenay Lake. Government authorities in Canada and the United States have the power under the treaty and the International Joint Commission order to regulate water flows to protect environmental values in a manner that could adversely affect the amount of water available for the generation of power.

Underinsured and Uninsured Losses

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

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's results of operations and financial position.

First Nations

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

The Supreme Court of Canada decided in 2010 that before issuing approvals for the addition of new facilities, the BCUC must consider whether the Crown has a duty to consult First Nations and to accommodate, if necessary, and if so whether the consultation and accommodation by the Crown have been adequate. This may affect the timing, cost and likelihood of the BCUC's approval of certain of the Corporation's capital projects.

Labour Relations

Approximately 65 per cent of the Corporation are members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

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

Employee Future Benefits

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

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

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

Human Resources Risk

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

Information Technology Infrastructure

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

Cyber-Security Risk

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

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. An inability to recover variances in interest costs from those forecast for rate-setting purposes could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

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

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

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

Capital Resources and Liquidity

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

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Global financial crises have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

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

Competitiveness and Commodity Price Risk

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

Power Supply Contracts

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

Additionally, the Corporation has periodically entered into power supply purchase contracts, including an extension to a long-term arrangement with BCH which is currently before the BCUC for approval. The Corporation may not be able to secure extensions of such agreements at their expiration dates or, if the agreements are not extended, an alternate supply of similarly-priced electricity. The Corporation is also

exposed to power supply availability risk in the event of non-performance by counterparties to the various power supply contracts.

In addition, the Corporation has a power supply sale agreement with BCH for the sale of electricity generated from its non-regulated hydroelectric power plant, which has a net book value of approximately $10 million at December 31, 2013. 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 may not be able to sell the power from this plant on similar terms, in the future.

Weather Related Demand Loss

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

Climate Change

The Corporation's entitlement to capacity and energy under the Canal Plant Agreement may be reduced if climate change in the future leads to a significant and sustained loss of precipitation over the entire headwaters of the Kootenay River system. To have an effect on the entitlements of capacity and energy, such change would likely have to persist for a prolonged period.

CHANGES IN ACCOUNTING POLICIES

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

Disclosures About Offsetting Assets and Liabilities

The Corporation adopted the amendments to Accounting Standards Codification ("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 IFRS. 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.

FINANCIAL INSTRUMENTS

Fair Value Estimates

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	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
($ millions)				
Long-term debt, including current portion[1,2]	**625.0**	**712.7**	625.9	785.7

[1] Includes secured and unsecured debentures and mortgage obligations for which the carrying value is measured at cost and excludes operating credit facilities.

[2] Fair value is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at the measurement date or by using quoted market sources. The estimates cannot be determined with precision as they involve uncertainties and matters of judgement.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recorded in the period they become known.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recorded based on previous, existing or expected regulatory orders or decisions. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2013, the Corporation recorded $283.4 million in current and long-term regulatory assets (December 31, 2012 - $291.4 million) and $19.6 million in current and long-term regulatory liabilities (December 31, 2012 - $9.0 million).

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets, by their nature, are an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2013, the Corporation's property, plant and equipment and intangible assets were $1,419.9 million, or approximately 71 per cent of total assets, compared to $1,368.2 million, or approximately 71 per cent of total assets as at December 31, 2012. Changes in depreciation and amortization rates can have a significant impact on the Corporation's depreciation and amortization expense.

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

Capitalized Overhead

As required by the BCUC, the Corporation capitalizes overhead costs that may not be directly attributable to specific items of property, plant and equipment and intangible assets, but which relate to the overall CEP. These capitalized overheads are allocated over constructed property, plant and equipment and intangible assets and are amortized over their estimated service lives. The methodology for calculating and allocating these general expenses to property, plant and equipment and intangible assets is established by the BCUC. In 2013, capitalized overhead totaled $11.5 million (2012 - $11.0 million). Any change in the methodology of calculating and allocating general overhead costs to property, plant and equipment and intangible assets could have a significant impact on the amount recorded as operating expenses and property, plant and equipment and intangible assets.

Goodwill and Indefinite-Lived Intangible Assets Impairment Assessment

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. As at December 31, 2013 goodwill totaled $234.8 million (2012 - $220.7 million).

To test goodwill for impairment, 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 goodwill 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.

In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value.

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 of the Corporation was not impaired.

Indefinite-lived intangible assets consist of right of ways not subject to amortization and totaled $12.4 million at December 31, 2013 (2012 - $12.0 million).

Intangible assets with indefinite useful lives 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.

Based on the Corporation's assessment it was concluded the indefinite-lived intangible assets of the Corporation were not impaired.

Employee Future Benefits

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

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2013, was 6.50 per cent, which is a decrease from the assumed long-term rate of return of 6.75 per cent which was used for 2012. As two of the Corporation's defined benefit pension plans have excess interest indexing provisions, which provide that a portion of investment returns are allocated to provide for indexing of pension benefits, the projected benefit obligations may vary based on the expected long-term rate of return on plan assets.

The assumed discount rate, used to measure the Corporation's projected pension benefit obligations on the measurement date of December 31, 2013 was 4.75 per cent, up from 4.00 per cent used on December 31, 2012. The increase in discount rates reflects the increased credit spreads and cost of capital on investment grade corporate bonds.

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

The Corporation expects net benefit pension cost for 2014 related to its defined benefit pension plans, prior to regulatory adjustments, to be approximately $4.3 million lower than in 2013. The lower net benefit pension cost is primarily due to increased investment returns in 2013, the effect of the increase in the

discount rates effective December 31, 2013 and an amendment made to one of the defined benefit pension plans effective November 2013; partially offset by changes in assumed rates of mortality.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on plan assets and discount rate on 2013 net benefit cost and the projected benefit obligations recorded in the Corporation's consolidated financial statements:

Increase (decrease) ($ millions)	**Net Benefit Cost**	**Projected Benefit Obligation**
1% increase in the expected rate of return	(0.8)	5.4
1% decrease in the expected rate of return	(0.8)	(10.0)
1% increase in the discount rate	(4.4)	(28.2)
1% decrease in the discount rate	5.4	36.2

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

Other significant assumptions applied in measuring pension net benefit cost and/or the projected pension benefit obligation were the average rate of compensation increase, assumed rates of retirement and assumed rates of mortality.

The Corporation's OPEB plan is also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation.

As at December 31, 2013, the Corporation had a pension projected benefit liability of $28.8 million (2012 - $51.9 million) and an OPEB projected benefit liability of $28.4 million (2012 - $29.4 million). During 2013, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of $7.7 million (2012 - $8.3 million).

Asset Retirement Obligation ("ARO")

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

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2013, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $24.1 million (December 31, 2012 - $12.7 million) on annual electricity revenues of $310.4 million (2012 - $285.0 million).

Income Taxes

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

Contingencies

Contingencies are described in the "Business Outlook" of this MD&A.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth audited financial information for the years ended December 31, 2013, 2012 and 2011. The financial information has been prepared in accordance with US GAAP. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years Ended December 31	**2013**	2012	2011
($ millions)			
Revenues	**308.7**	293.4	282.7
Net earnings	**49.6**	49.0	47.5
Total assets	**2,004.1**	1,931.1	1,889.8
Current and long-term debt	**712.3**	660.9	659.4
Dividends on common shares	**46.0**	24.0	16.0

The increase in revenues over the three years was primarily due to customer rate increases approved by the BCUC. Net earnings increased over the three years as a result of increases in rate base and actual variances from forecasts used to set rates. In 2013 the ROE was decreased to 9.15 per cent from 9.9 per cent in 2012 and 2011. The increases in total assets and current and long-term debt was primarily due to the capital expenditures in each of the three years including the $55.1 million acquisition of the City of Kelowna's electrical utility business in March 2013. Dividends increased over the three years to assist in maintaining the BCUC approved capital structure of 40 per cent equity.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2012 through December 31, 2013. The information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with US GAAP. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Electricity Revenue**	**Net Earnings**
($ millions)		
December 31, 2013	86.8	13.0
September 30, 2013	72.9	11.3
June 30, 2013	66.8	8.0
March 31, 2013	83.9	17.3
December 31, 2012	75.0	11.8
September 30, 2012	66.5	12.9
June 30, 2012	61.6	9.2
March 31, 2012	81.9	15.1

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. The operations generally produce higher earnings in the first quarter of the fiscal year due to increased

customer load as a result of cooler weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result, interim earnings are not indicative of earnings on an annual basis.

March 2012/2013 - The increase in electricity revenue was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013. The increase in earnings was primarily due to an increase in rate base; a decrease in operating costs due to the timing of expenditures; a decrease in interest expense and depreciation, as compared to the forecasted amounts used to set 2013 rates; and an increase in AFUDC recognized as directed by the BCUC.

June 2012/2013 - The increase in electricity revenue was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013 and increased revenue resulting from the City of Kelowna electrical utility business acquired on March 29, 2013. The decrease in earnings was primarily due to a decrease in the interim allowed ROE effective January 1, 2013, the effect of which was recognized during the quarter, partially offset by an increase in rate base which includes the acquisition of the City of Kelowna electrical utility business.

September 2012/2013 - The increase in electricity revenue was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013, higher electricity sales and increased revenue resulting from the City of Kelowna electrical utility business acquisition. The decrease in earnings was primarily due to a decrease in the interim allowed ROE effective January 1, 2013 and lower pole attachment revenue, partially offset by an increase in rate base which includes the acquisition of the City of Kelowna electrical utility business and a decrease in interest expense as compared to the forecasted amounts used to set 2013 rates.

December 2012/2013 - The increase in electricity revenue was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013, higher electricity sales and increased revenue resulting from the City of Kelowna electrical utility business acquisition. The increase in earnings was primarily due to an increase in rate base which includes the acquisition of the City of Kelowna electrical utility business, and a decrease in interest expense as compared to the forecasted amounts used to set 2013 rates, partially offset by a decrease in the interim allowed ROE effective January 1, 2013.

BUSINESS OUTLOOK

Collective Agreements

The organized employees of the Corporation are represented by the International Brotherhood of Electrical Workers ("IBEW"), Local 213, and Canadian Office and Professional Employees Union ("COPE"), Local 378.

The four year collective agreement between the Corporation and the IBEW expired on January 31, 2013. IBEW represents employees in specified occupations in the areas of generation and transmission and distribution. The parties began negotiating in January, 2013. The IBEW served the Corporation 72 hours strike notice on March 13, 2013 and commenced partial job action on May 16, 2013. On December 16, 2013, the IBEW informed FortisBC that it had accepted the Corporation's invitation to binding interest arbitration, ending the labour dispute and returning FortisBC's unionized employees to work. The arbitration process will occur over the first half of 2014.

There are two collective agreements between the Corporation and COPE. The first COPE collective agreement representing employees in specified occupations in the areas of administration and operations support expired on December 31, 2013. This first COPE collective agreement is being replaced with a new five year agreement, which was ratified on December 13, 2013 and expires on December 31, 2018. The second COPE collective agreement representing customer service employees expires on March 31, 2014.

Contingencies

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.

Insurance Claim

FortisBC owns and operates the Corra Linn hydroelectric plant which is located on the Kootenay River in southern British Columbia. In July 2013, there was an electrical fire involving one of the three operating units at the Corra Linn plant, which was taken out of operation. Property damages and replacement power purchase costs are expected to be substantially recovered through insurance. The damaged unit is currently under repair and is expected to be operational again in the first quarter of 2014.

OUTSTANDING SHARE DATA

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

ADDITIONAL INFORMATION

Additional information about FortisBC Inc., including its Annual Information Form, is available on SEDAR at www.sedar.com.

For further information, please contact:

Michele Leeners, Vice President, Finance and Chief Financial Officer
Tel: (250) 469-8013; Email: michele.leeners@fortisbc.com

David Bennett
Vice President, Operations Support, General Counsel and Corporate Secretary
Tel: (250) 717-0853; Email: david.bennett@fortisbc.com

FortisBC Inc.
Suite 100, 1975 Springfield Road
Kelowna, British Columbia
V1Y 7V7

Website: www.fortisbc.com