FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

Prepared in accordance with United States Generally Accepted Accounting Principles

MANAGEMENT'S REPORT

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

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

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

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

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

The 2015 annual consolidated financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisBC Inc.

Ernst & Young LLP, independent auditors appointed by the shareholder of FortisBC Inc. upon recommendation of the Audit Committee, have performed an audit of the 2015 annual consolidated financial statements and their report follows.

(Signed by)
Michael Mulcahy
President and Chief Executive Officer

(Signed by)
Ian Lorimer
Vice President, Finance and Chief Financial Officer

Kelowna, Canada
February 11, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
FortisBC Inc.

We have audited the accompanying consolidated financial statements of **FortisBC Inc.**, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **FortisBC Inc.** as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst & Young LLP

Vancouver, Canada
February 11, 2016

Chartered Professional Accountants

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

ASSETS	**2015**	2014
Current assets		
Cash and cash equivalents	**$ 2.3**	$ 1.2
Accounts receivable (notes 4 and 21)	**52.0**	50.1
Prepaid expenses	**1.3**	0.9
Other assets (note 5)	**0.8**	0.8
Regulatory assets (note 8)	**7.0**	7.2
Assets held for sale (note 24)	**8.5**	-
Income taxes receivable	**5.7**	-
	77.6	60.2
Property, plant and equipment (notes 6 and 24)	**1,437.1**	1,419.2
Intangible assets (note 7)	**54.9**	52.7
Regulatory assets (note 8)	**308.9**	280.8
Other assets (notes 5 and 15)	**5.8**	2.9
Goodwill (note 9)	**234.8**	234.8
	$ 2,119.1	$ 2,050.6
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Credit facilities (note 20)	**$ 55.9**	$ 31.9
Accounts payable and other current liabilities (notes 10, 15 and 21)	**70.8**	58.5
Income taxes payable	**-**	2.6
Current portion of long-term debt (note 11)	**25.0**	-
Current portion of capital lease obligations (note 12)	**0.6**	0.5
Regulatory liabilities (note 8)	**7.4**	9.2
	159.7	102.7
Long-term debt (note 11)	**654.0**	678.7
Capital lease obligations (note 12)	**312.5**	308.6
Regulatory liabilities (note 8)	**15.3**	17.9
Other liabilities (note 13)	**2.2**	2.2
Pension and other post-employment benefits (note 15)	**62.7**	63.5
Deferred income taxes (note 18)	**140.8**	129.2
	1,347.2	1,302.8
Shareholder's equity		
Common shares [a] (note 14)	**219.2**	219.2
Additional paid-in capital (note 9)	**321.8**	321.8
Retained earnings	**230.9**	206.8
	771.9	747.8
	$ 2,119.1	$ 2,050.6

[a] Par value of $100 each; 500 million authorized common shares; 2.2 million issued and outstanding at December 31, 2015 and 2014.

Commitments (note 22)
Contingencies (note 23)

Approved on behalf of the Board:

(Signed by) Harold Calla
Director

(Signed by) Michael Mulcahy
Director

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

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

	2015	2014
Revenues (note 21)		
Electricity revenue	**$ 325.7**	$ 319.5
Other revenue	**20.2**	5.2
	345.9	324.7
Expenses		
Power purchase costs (note 21)	**116.0**	86.7
Operating costs (note 21)	**80.1**	82.0
Depreciation and amortization (notes 6, 7 and 8)	**57.4**	59.3
	253.5	228.0
Operating income	**92.4**	96.7
Other (expenses) income (notes 21 and 24)	**(0.6)**	0.8
Finance charges (notes 16 and 21)	**38.7**	40.6
Earnings before income taxes	**53.1**	56.9
Income taxes (note 18)	**7.5**	11.8
Net earnings	**$ 45.6**	$ 45.1

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

	Common Shares	**Additional Paid-in Capital**	**Retained Earnings**	**Total**
As at December 31, 2013	$ 219.2	$ 321.8	$ 189.7	$ 730.7
Net earnings	-	-	45.1	45.1
Dividends on common shares	-	-	(28.0)	(28.0)
As at December 31, 2014	**219.2**	**321.8**	**206.8**	**747.8**
Net earnings	**-**	**-**	**45.6**	**45.6**
Dividends on common shares	**-**	**-**	**(21.5)**	**(21.5)**
As at December 31, 2015	**$ 219.2**	**$ 321.8**	**$ 230.9**	**$ 771.9**

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

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

	2015	2014
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 45.6**	$ 45.1
Adjustments for non-cash items		
Depreciation and amortization (notes 6, 7 and 8)	**57.4**	59.3
Amortization of debt issuance costs (note 16)	**0.2**	0.4
Impairment of assets held for sale (note 24)	**1.0**	-
Equity component of allowance for funds used during construction	**(0.3)**	(0.6)
Deferred income taxes (note 18)	**0.6**	0.1
Change in long-term regulatory assets and liabilities	**(4.6)**	14.6
Change in other assets and other liabilities	**(0.8)**	3.2
Changes in non-cash working capital (note 17)	**(4.1)**	(13.2)
	95.0	108.9
Investing activities		
Property, plant and equipment (note 17)	**(95.9)**	(80.7)
Intangible assets (note 17)	**(8.0)**	(12.0)
Contributions in aid of construction	**7.1**	9.0
Change in other assets and other liabilities	**0.3**	0.5
	(96.5)	(83.2)
Financing activities		
Net proceeds from (repayment of) credit facilities and demand notes	**24.0**	(55.4)
Proceeds from issuance of debentures (note 11)	**-**	200.0
Repayment of debentures (note 11)	**-**	(140.0)
Debt issuance costs	**0.1**	(1.6)
Dividends on common shares	**(21.5)**	(28.0)
	2.6	(25.0)
Net increase in cash and cash equivalents	**1.1**	0.7
Cash and cash equivalents at beginning of year	**1.2**	0.5
Cash and cash equivalents at end of year	**$ 2.3**	$ 1.2

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

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

1. DESCRIPTION OF THE BUSINESS

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

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 167,600 customers directly and indirectly. The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 225 megawatts ("MW"), approximately 7,200 kilometers of transmission and distribution power lines, and a peak demand of 746 MW. Included in FBC's non-regulated assets is the Walden Power Partnership ("WPP") which includes a 16 MW run-of-river hydroelectric power plant near Lillooet, BC. In December 2015, FBC and its subsidiaries entered into an agreement to sell the WPP hydroelectric power plant assets. Accordingly, the WPP assets have been reclassified from property, plant and equipment to assets held for sale on the consolidated balance sheet as at December 31, 2015 (Note 24).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP"). The consolidated financial statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries, WPP, ESI Power-Walden Corporation Ltd. and West Kootenay Power Ltd. All material inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through February 11, 2016, the date these consolidated financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the consolidated financial statements as at December 31, 2015. Subsequent events have been appropriately disclosed in these consolidated financial statements.

Regulation

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

The Corporation's consolidated financial statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from that for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ending December 31, 2015 and 2014 are described in these "Summary of Significant Accounting Policies", and in note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 12 "Capital Lease Obligations", note 13 "Other Liabilities", note 15 "Employee Future Benefits", note 16 "Finance Charges", and note 18 "Income Taxes".

When the BCUC issues decisions affecting the financial statements, the effects of the decision are usually recorded in the period in which the decision is received. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest is charged on overdue accounts receivable balances. Accounts receivable are charged-off in the period in which the receivable is deemed uncollectible.

Regulatory Assets and Liabilities

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

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

Materials and Supplies

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and unamortized contributions in aid of construction ("CIAC"). Cost includes all direct expenditures, betterments and replacements and as prescribed by the BCUC, an allocation of overhead costs and both a debt and an equity component of allowance for funds used during construction ("AFUDC") at approved rates. Certain additions to property, plant and equipment are made with the assistance of CIACs from customers when the estimated revenue is less than the cost of providing service or when special equipment is needed to supply the customers' specific requirements.

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

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

Leases

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

Capital leases are amortized over the lease term, except where ownership of the asset is transferred at the end of the lease term, in which case capital leases are amortized over the estimated service life of the underlying asset. Where the BCUC has approved recovery of the arrangements as operating leases for rate-setting purposes that would otherwise qualify as capital leases for financial reporting purposes, specifically the Brilliant Power Purchase Agreement ("BPPA") and the Brilliant Terminal Station ("BTS") included in note 12 "Capital Lease Obligations", the timing of the expense recognition related to the lease is modified to conform with the rate-setting process. Therefore, the total interest and depreciation expense recognized during a period equals the power purchase costs or operating lease rental expense included in allowable costs for rate-making purposes during that period with the difference recognized as a regulatory asset to be recovered from customers over the term of the related arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Intangible Assets

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

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

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

No impairment provision has been determined for the years ended December 31, 2015 and 2014.

Impairment of Long-Lived Assets

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

Asset-impairment testing is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets' carrying value, including a fair return on capital or assets, is provided through customer electricity rates approved by the BCUC. The net cash inflows for the Corporation are not asset-specific but are pooled for the entire regulated utility. There was no impairment of regulated long-lived assets for the years ended December 31, 2015 and 2014.

As described in note 24, the Corporation's non-regulated WPP hydroelectric power plant assets, which have been reclassified from property, plant and equipment to assets held for sale on the consolidated balance sheet as of December 31, 2015, were subject to an impairment charge as a result of the carrying amount of the assets exceeding the fair value of the assets.

Goodwill

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

When the Corporation tests goodwill for impairment it has the option, on an annual basis, of performing a qualitative assessment before calculating fair value. If the qualitative factors indicate that fair value is 50 per cent or more likely to be greater than the carrying value, calculation of fair value would not be required.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

criteria, the Corporation will have fair value estimated by an independent external consultant, as at the annual impairment date, at a minimum once every three years.

The Corporation performs the annual impairment test as at October 1. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of the Corporation was below its carrying value. No such event or changes in circumstances occurred during 2015 or 2014 and there were no impairment provisions required in either year.

As at October 1, 2015 the Corporation chose to perform internal quantitative and qualitative assessments for goodwill and concluded that fair value was 50 per cent or more likely to be greater than carrying value. It was concluded that goodwill was not impaired.

Asset Retirement Obligations

The Corporation recognizes the fair value of a future Asset Retirement Obligation ("ARO") as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset. The fair value of the ARO is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the ARO is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

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

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

Revenue Recognition

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

Electricity is metered upon delivery to customers and is recognized as revenue when consumed using rates approved by the BCUC. Electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each reporting date. The estimation process for unbilled electricity consumption will result in adjustments to estimates of electricity revenues in the periods they become known.

The Corporation has entered into contracts to sell surplus capacity that may be available after FBC meets its load requirements. These sales are recognized on an accrual basis based on rates set out in the sales contracts and measurements at the point of interconnection.

Employee Future Benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Corporation uses a measurement date of December 31 for all plans. The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and the fair market value of plan assets.

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

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

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

Derivative Financial Instruments

Derivative instruments are recognized as either assets or liabilities on the balance sheet and are measured at fair value, unless they meet the normal purchases and normal sales scope exception. The Corporation continually assesses its contracts, including its power purchase agreements, to determine whether they meet the criteria of a derivative, and if so, whether they qualify for the normal purchases and normal sales scope exception.

Energy Management Loans

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

Debt Issuance Costs

As discussed under "New Accounting Policies", effective October 1, 2015 and applied retrospectively, costs incurred to arrange debt financing are recognized as a direct deduction from the carrying amount of the debt liability and are accounted for using the effective interest method over the life of the related financial liability.

Sales Taxes

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

Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not (greater than a 50 per cent chance) to be realized. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that will be in effect when the temporary differences are expected to be recovered or settled. As a result of rate regulation, deferred income taxes incurred related to regulated operations have been offset by a corresponding regulatory asset or liability resulting in no impact on net earnings. Current income tax expense or recovery is recognized for the estimated income taxes payable or receivable in the current year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Use of Accounting Estimates

The preparation of the Corporation’s financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates are described in these “Summary of Significant Accounting Policies”, in note 8 “Regulatory Assets and Liabilities”, note 23 “Contingencies” and note 24 “Assets Held for Sale”. Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

New Accounting Policies

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Effective January 1, 2015, the Corporation prospectively adopted Accounting Standards Update (“ASU”) No. 2014-08 that changes the criteria and disclosures for reporting discontinued operations. As a result the pending sale of the Corporation’s non-regulated WPP hydroelectric power plant assets was assessed under this guidance and did not meet the criteria for discontinued operations.

Simplifying the Presentation of Debt Issuance Costs

Effective October 1, 2015, the Corporation early adopted ASU No. 2015-03 that requires debt issuance costs to be presented on the consolidated balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The adoption of this update was applied retrospectively and resulted in the reclassification of debt issuance costs of approximately $6.3 million from long-term other assets to long-term debt on FBC’s consolidated balance sheet as at December 31, 2014. Additionally, the Corporation early adopted ASU No. 2015-15 that clarifies the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The update permits an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this update was applied retrospectively and did not have a material impact on FBC’s consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Balance Sheet Classification of Deferred Taxes

Effective October 1, 2015, the Corporation early adopted ASU No. 2015-17 that requires deferred tax assets and liabilities to be classified and presented as long term on the consolidated balance sheet. The adoption of this update was applied retrospectively and resulted in the reclassification of current deferred income tax assets of $3.1 million and current deferred income tax liabilities of $2.5 million to long-term deferred income tax liabilities on the consolidated balance sheet as at December 31, 2014.

Future Accounting Pronouncements

FBC considers the applicability and impact of all ASU's issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FBC. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the consolidated financial statements.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create ASC Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. ASU No. 2015-14 was issued in August 2015 and the amendments in this update defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date. The majority of FBC's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the BCUC, and is expected to be in the scope of ASU No. 2014-09. FBC has not yet selected a transition method and is assessing the impact that the adoption of this standard will have on its consolidated financial statements and related disclosure. FBC plans to have this assessment substantially complete by the end of 2016.

Amendments to the Consolidation Analysis

ASU No. 2015-02 was issued in February 2015 and the amendments in this update change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments note the following with regard to limited partnerships: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities; and (ii) eliminate the presumption that a general partner should consolidate a limited partnership. This update is effective for annual and interim periods beginning after December 15, 2015 and may be applied using a modified retrospective approach or retrospectively. The adoption of this update is not expected to materially impact FBC's consolidated financial statements.

3. REGULATORY MATTERS

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

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

3. REGULATORY MATTERS (continued)

The BCUC's PBR Decision resulted in a 2014 average rate base of approximately $1,204 million and a 2014 rate increase of approximately 3.3 per cent.

In June 2015, the BCUC issued its decision on FBC's 2015 rates under the PBR Plan. The decision results in a 2015 average rate base of approximately $1,249 million and on an annualized basis, an approved rate increase for 2015 of 4.2 per cent over 2014 rates. This decision results in FBC applying a 3.5 per cent rate increase from January 1, 2015 to July 31, 2015 and a 5.1 per cent rate increase effective August 1, 2015, both as compared to 2014.

In December 2015, the BCUC issued its decision on FBC's 2016 rates. The decision results in a 2016 average rate base of approximately $1,286 million and a rate increase of 2.96 per cent over 2015 rates.

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

A Generic Cost of Capital ("GCOC") Proceeding to establish the allowed ROE and capital structures for BC regulated utilities occurred from 2012 to 2014. FortisBC Energy Inc. ("FEI"), a related company under common control, was designated as the benchmark utility and a BCUC decision established that the ROE for the benchmark utility would be set at 8.75 per cent effective January 1, 2013. Additionally, the allowed ROE for FBC was confirmed at 9.15 per cent, recognizing a risk premium over the benchmark utility of 40 basis points, and the common equity component of capital structure of FBC was confirmed at 40 per cent, both effective January 1, 2013. The allowed ROE and common equity component of capital structure will remain in effect through December 31, 2015.

The BCUC decision on the first stage of the GCOC Proceeding, received in May 2013, directed FEI to file an application to review the 2016 benchmark utility ROE and common equity component of capital structure by no later than November 30, 2015. In October 2015, FEI filed its application to review the 2016 benchmark utility ROE and common equity component of capital structure. In December 2015, the BCUC determined that FEI's existing common equity component of capital structure and ROE will remain the benchmark on an interim basis, effective January 1, 2016. A decision on the application is expected in mid-2016. Since FEI is the benchmark, any changes to FEI's ROE could have an impact on the FBC ROE.

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 IASB for the mandatory application of a standard within 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 January 1, 2015.

The BCUC had previously approved the Corporation's request to adopt US GAAP for regulatory purposes until December 31, 2014. In May 2014, FBC applied for approval to continue the use of US GAAP for regulatory purposes effective January 1, 2015. In July 2014, the BCUC granted the requested approval, until such time as FBC no longer has an OSC exemption to use US GAAP or is no longer reporting under US GAAP for financial reporting purposes, whichever is earlier.

4. ACCOUNTS RECEIVABLE

($ millions)	**2015**	2014
Trade accounts receivable	**28.5**	21.7
Accrued unbilled revenue	**18.3**	21.6
Other	**5.9**	6.8
Amounts due from related parties (note 21)	**0.9**	1.7
Allowance for doubtful accounts	**(1.6)**	(1.7)
	52.0	50.1

5. OTHER ASSETS

($ millions)	**2015**	2014
Energy management loans	**0.6**	1.0
Materials and supplies	**0.6**	0.5
Pension asset (note 15)	**5.4**	2.2
	6.6	3.7
Less: current portion	**0.8**	0.8
	5.8	2.9

The current portion of other assets relate to material and supplies and energy management loans expected to be collected within the next year.

6. PROPERTY, PLANT AND EQUIPMENT

2015	**Weighted Average Depreciation Rate**	**Cost**	**Accumulated Depreciation**	**Book Value**
			($ millions)	
Generation	**2.1%**	**247.0**	**51.7**	**195.3**
Transmission	**2.7%**	**659.4**	**179.5**	**479.9**
Distribution	**2.6%**	**540.6**	**84.6**	**456.0**
General	**7.4%**	**158.8**	**78.0**	**80.8**
Assets under capital lease	**2.0%**	**288.0**	**65.2**	**222.8**
Assets under construction	**-**	**2.3**	**-**	**2.3**
		1,896.1	**459.0**	**1,437.1**

2014	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Book Value
			($ millions)	
Generation	2.3%	268.5	63.6	204.9
Transmission	2.5%	643.1	162.2	480.9
Distribution	3.1%	503.8	87.1	416.7
General	7.4%	153.8	70.2	83.6
Assets under capital lease	2.0%	285.5	59.5	226.0
Assets under construction	-	7.1	-	7.1
		1,861.8	442.6	1,419.2

As allowed by the BCUC, during the year ended December 31, 2015, the Corporation capitalized an allowance for debt and equity funds used during construction at approved rates of $0.2 million (2014 - $0.5 million) and $0.3 million (2014 - $0.6 million) respectively, and approved capitalized overhead costs of $8.9 million (2014 - $9.1 million).

Depreciation of property, plant and equipment for the year ended December 31, 2015 totalled $47.0 million (2014 - $45.4 million). Included in property, plant and equipment are ARO costs totalling $2.0 million (2014 - $2.0 million). Depreciation of $0.2 million (2014 - $0.1 million) on the asset retirement costs was recorded in other recoverable costs in regulatory assets (note 8). The corresponding liability has been recorded as an ARO in other liabilities (note 13).

Assets under capital lease include the BPPA and BTS arrangements. Depreciation of $5.0 million (2014 - $5.0 million) on the BPPA asset under capital lease was recorded in the BPPA lease costs regulatory asset (note 8) and depreciation of $0.6 million (2014 - $0.6 million) on the BTS asset under capital lease was recorded in the BTS lease costs regulatory asset (note 8).

During 2015, actual removal and site restoration costs of $5.7 million (2014 - $7.8 million), net of salvage proceeds of $0.3 million (2014 - $0.5 million), were recorded in accumulated depreciation.

7. INTANGIBLE ASSETS

2015	**Cost**	**Accumulated Amortization**	**Book Value**
($ millions)			
Right of ways	**34.2**	**4.0**	**30.2**
Software	**75.0**	**50.3**	**24.7**
	109.2	**54.3**	**54.9**

2014	Cost	Accumulated Amortization	Book Value
($ millions)			
Right of ways	32.9	3.5	29.4
Software	68.3	45.0	23.3
	101.2	48.5	52.7

Amortization of intangible assets for the year ended December 31, 2015 totalled $5.8 million (2014 - $4.8 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 7.8 per cent (2014 – 7.6 per cent). Amortization of right of ways is recorded on a straight-line basis using an amortization rate of 2.2 per cent (2014 – 2.2 per cent).

Included in the cost of right of ways at December 31, 2015 was $14.1 million (2014 - $13.4 million) not subject to amortization.

For intangibles subject to amortization at December 31, 2015 the amortization expense is estimated to average approximately $5.9 million annually for each of the next five years.

8. REGULATORY ASSETS AND LIABILITIES

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

($ millions)	**2015**	2014	**Remaining Recovery Period (years)**
Regulatory Assets			
Energy management costs	**18.4**	18.3	10
Pension and OPEB unrecognized actuarial losses and past service costs	**36.2**	38.5	Ongoing
Pension and OPEB transition and variance asset	**7.2**	11.2	1-8
BPPA lease costs	**84.0**	77.1	41
BTS lease costs	**6.3**	6.2	30
Deferred income taxes	**141.6**	130.6	Ongoing
Income taxes recoverable on OPEBs	**5.3**	5.3	Ongoing
Stepped and Stand-by Rate Decision	**8.5**	-	2-5
2015 Flow-through variances	**2.4**	-	2
Meter retirement costs	**4.5**	(0.8)	5
Other recoverable costs	**1.5**	1.6	1-10
	315.9	288.0	
Less: current portion	**7.0**	7.2	
	308.9	280.8	

($ millions)	**2015**	2014	**Remaining Recovery Period (years)**
Regulatory Liabilities			
Flow-through variances	**18.3**	22.2	2-3
Pension and OPEB variance liability	**3.5**	4.1	2-3
Debt issuance costs under effective interest method	**0.9**	0.8	35
	22.7	27.1	
Less: current portion	**7.4**	9.2	
	15.3	17.9	

Amortization of regulatory assets and liabilities for the year ended December 31, 2015 totalled $4.6 million (2014 - $9.1 million).

Energy Management Costs

The Corporation provides energy management services to promote energy efficiency programs for its customers. As required by BCUC order, the Corporation has capitalized all expenditures (except certain defined costs) and the regulatory asset represents the unamortized balance of the energy management program. The regulatory assets balance is expected to be recovered from customers in future rates over an average of 10 years as approved by the BCUC.

Pension and OPEB Unrecognized Actuarial Losses and Past Service Costs

The net funded status, being the difference between the fair value of plan assets and the projected benefit obligation for pensions and OPEBs, is required to be recognized on the Corporation's balance sheet under ASC Topic 715. The amount required to make this net funded status adjustment, which would otherwise be recognized in Accumulated Other Comprehensive Income ("AOCI"), has instead been deferred as a regulatory asset. The regulatory asset balance represents the deferred portion of the expense relating to pensions and

8. REGULATORY ASSETS AND LIABILITIES (continued)

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

Pension and OPEB Transition and Variance Asset

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

Also included in this balance is the variance between 2012 and 2013 actual pension and OPEB expense and the amounts forecast for rate-setting purposes which has been deferred as a regulatory asset as approved by the BCUC. The regulatory asset balance is expected to be recovered from customers in future rates but it is not subject to a regulatory return.

BPPA Lease Costs

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

BTS Lease Costs

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

Deferred Income Taxes

FBC recognizes deferred income taxes and liabilities and related regulatory liabilities and assets for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future rates. Included in deferred income tax assets and liabilities are the future income tax effects of the subsequent settlement of the related regulatory liabilities and assets through customer rates. The deferred income taxes on regulated assets and regulated liabilities, and the regulated asset and liability for deferred income taxes, is a result of ASC Topic 740, Income Taxes which requires the recognition of deferred income tax liabilities and assets as well as offsetting regulated assets or liabilities. The regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable, but it is not subject to a regulatory return.

Income Taxes Recoverable on OPEBs

The BCUC allows OPEB plan costs to be collected in customer rates on an accrual basis, rather than on a cash basis, which creates timing differences for income tax purposes. As approved by the BCUC, the tax effect of this timing difference is deferred as a regulatory asset and will be reduced as cash payments for OPEB plans exceed required accruals and amounts collected in customer rates. This regulatory asset balance is expected to be recovered from customers in future rates, but is not subject to a regulatory return.

Stepped and Stand-by Rate Decision

In September 2015, the BCUC issued a decision that approved both a stand-by rate and the specific service parameters for the one customer to which the rate applies. In October 2015, the BCUC issued a letter encouraging the Corporation to come to an agreement with the customer on the appropriate rate of billing

8. REGULATORY ASSETS AND LIABILITIES (continued)

to apply during the period in which the regulatory process that led to the stand-by rate was progressing. FBC and the customer filed a joint submission setting out their agreement on the refund amount to be applied to the interim period, and its regulatory treatment. The BCUC issued a decision in December 2015 which approved the joint submission agreement refund amount of approximately $7.6 million, plus applicable interest, to be refunded to the customer, with the offset of the payment recognized as a regulatory asset to be recovered in future rates from other customers. This regulatory asset balance is expected to be recovered from customers in future rates, but is not subject to a regulatory return. The payment was made to the customer subsequent to December 31, 2015.

Meter Retirement Costs

As ordered by the BCUC, these are costs associated with the retirement of meters replaced with advanced meter infrastructure. This regulatory balance is expected to be recovered from customers in future rates, but is not subject to a regulatory return.

Other Recoverable Costs

This balance includes deferral of other costs which have either been approved by the BCUC for deferral and amortization or are expected to be approved. Other recoverable costs include costs associated with the long-term transmission and distribution system plan development, deferred projects, the rate application proceedings, depreciation and accretion on the ARO, and the income tax impacts of the Corporation's prepaid pension costs and debt issuance costs. This regulatory asset balance is expected to be recovered from customers in future rates.

Flow-through Variances

As part of the PBR Decision and effective January 1, 2014 through to the end of the PBR term, the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

2015 flow-through variances are recognized as a regulatory asset which is expected to be recovered from customers in future rates and is not subject to a regulatory return.

The flow-through variance regulatory liability includes the over collection of 2014 revenue, established per the 2014 PBR Decision, and the BCUC approved Earnings Sharing Mechanism deferral account that captures 50/50 sharing of variances from formula-driven operation and maintenance expenses and capital expenditures, to be refunded to customers in future years. This regulatory liability is not subject to a regulatory return.

Pension and OPEB Variance Liability

As approved by the BCUC, the pension cost variance account accumulates differences between 2014 and 2015 pension and OPEB expenses that are approved for recovery in rates and the actuarially determined pension and OPEB expense. The regulatory liability balance is expected to be returned to customers in future rates over an average of 3 years, but it is not subject to a regulatory return.

Debt Issuance Costs Under Effective Interest Method

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

9. GOODWILL

($ millions)	**2015**	2014
Resulting from the push-down effects of the acquisition of FBC by Fortis	**219.5**	219.5
Associated with the acquisition of Princeton Light & Power Company, Limited ("PLP") by FBC	**1.2**	1.2
Associated with the acquisition of the City of Kelowna electrical utility business by FBC	**14.1**	14.1
	234.8	234.8

There was no impairment of goodwill for the years ended December 31, 2015 and 2014.

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

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

On March 29, 2013, FBC purchased the City of Kelowna's electrical utility business for $55.1 million. The excess of the fair value of the consideration paid over the fair value of the assets acquired has been recorded as goodwill.

10. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

($ millions)	**2015**	2014
Employee compensation and benefits payable	**11.1**	11.2
Trade accounts payable	**15.0**	22.9
Power purchase and wheeling accruals	**4.8**	6.2
Customer deposits	**8.9**	7.8
Deposit on assets held for sale (note 24)	**0.9**	-
Interest payable	**8.1**	8.1
Other current liabilities	**1.5**	1.1
Stepped and Stand-by Rate Decision (note 8)	**8.5**	-
Pension and other post-employment benefits (note 15)	**1.1**	0.9
Amounts due to related parties (note 21)	**10.9**	0.3
	70.8	58.5

11. LONG-TERM DEBT

($ millions)	**2015**	2014
Secured Debentures		
Series G 8.8% due August 28, 2023	**25.0**	25.0
Unsecured Debentures		
Series H 8.77% due February 1, 2016	**25.0**	25.0
Series I 7.81% due December 1, 2021	**25.0**	25.0
Series 05-1 5.60% due November 9, 2035	**100.0**	100.0
Series 07-1 5.90% due July 4, 2047	**105.0**	105.0
Medium Term Note Debentures Series 1 6.10% due June 2, 2039	**105.0**	105.0
Medium Term Note Debentures Series 2 5.00% due November 24, 2050	**100.0**	100.0
Medium Term Note Debentures Series 3 4.00% due October 28, 2044	**200.0**	200.0
Total Debt	**685.0**	685.0
Less: current portion of long-term debt	**25.0**	-
	660.0	685.0
Less: debt issuance costs	**6.0**	6.3
Long-term debt	**654.0**	678.7

During 2015, amortization of debt issuance costs of $0.2 million (2014 - $0.4 million) was recognized in finance charges (note 16).

Secured and Unsecured Debentures

The Series G secured debentures are collateralized by a fixed and floating first charge on the assets of the Corporation. The secured Series G and unsecured Series H and I debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis.

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

On October 7, 2014, FBC entered into an agreement with the dealers listed in the Dealer Agreement to sell $200 million of senior unsecured Medium Term Note ("MTN") Debentures Series 3. The MTN Debentures Series 3 will incur interest at a rate of 4.00 per cent to be paid semi-annually and mature on October 28, 2044. The closing of the issuance occurred on October 28, 2014, with net proceeds being used to repay existing indebtedness, including repayment of Series 04-1 debenture of $140 million due November 28, 2014.

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

($ millions)	
2016	25.0
2017	-
2018	-
2019	-
2020	-
Thereafter	660.0
	685.0

In February 2016, the Corporation repaid the Series H Debenture of $25 million.

The Corporation has externally imposed capital requirements to which it is subject to that include interest coverage ratios and limitations on the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at December 31, 2015.

12. CAPITAL LEASE OBLIGATIONS

($ millions)	**2015**	2014
Capital lease obligations	**313.1**	309.1
Less: current portion of capital lease obligations	**0.6**	0.5
	312.5	308.6

BPPA Capital Lease

On May 3, 1996 an order was granted by the BCUC approving the 60-year BPPA for the sale of the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by the Columbia Power Corporation ("CPC") and the Columbia Basin Trust ("CBT"). FBC operates and maintains the Brilliant plant for the BPC in return for a management fee. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, which are both subject to fixed annual escalators, as well as sustaining capital charges, and operating expenses. The BPPA includes a market related price adjustment after 30 years of the 60-year term. Due to the fixed annual escalators, presently the interest expense on the capital lease obligation exceeds the required payments and therefore the capital lease obligation increases through 2024 and subsequently decreases for the remainder of the term. Approximately 94 per cent of the output from the 149 MW Brilliant hydroelectric plant is being purchased by FBC through the BPPA.

The BPPA lease obligation bears interest at a composite rate of approximately 5 per cent. Of the $28.2 million (2014 - $27.8 million) of interest expense relating to the BPPA obligation and $5.0 million (2014 - $5.0 million) of depreciation expense relating to the BPPA capital lease asset, a total of $26.3 million (2014 -$25.8 million) was recognized in power purchase costs for 2015, as approved by the BCUC, with the balance of $6.9 million (2014 - $7.0 million) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

BTS Capital Lease

On July 15, 2003, the Corporation began operating the BTS under an agreement the term of which expires in 2056 (the "BTS Obligation"). The agreement provides that FBC will pay a charge related to the recovery of the capital cost of the BTS and related operating costs. The BTS Obligation bears interest at a composite rate of approximately 9 per cent.

Of the $2.1 million (2014 - $2.1 million) of interest expense relating to the BTS Obligation and $0.6 million (2014 - $0.6 million) of depreciation expense relating to the BTS capital lease asset, a total of $2.6 million (2014 - $2.6 million) was recognized in operating costs for 2015, as approved by the BCUC, with the balance of $0.1 million (2014 - $0.1 million) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

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

($ millions)	**BTS Lease**	**BPPA Lease**	**Total**
2016	3.3	38.8	42.1
2017	3.3	39.5	42.8
2018	3.3	40.2	43.5
2019	3.4	40.9	44.3
2020	3.4	41.7	45.1
Thereafter	65.3	1,983.3	2,048.6
	82.0	2,184.4	2,266.4
Less: amounts representing imputed interest and executory costs	57.9	1,895.4	1,953.3
Total capital lease obligations	24.1	289.0	313.1
Less: current portion	0.6	-	0.6
Present value of minimum lease payments	**23.5**	**289.0**	**312.5**

13. OTHER LIABILITIES

($ millions)	**2015**	2014
Asset retirement obligation	**2.2**	2.2

Asset Retirement Obligation

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

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

Changes in the Corporation's AROs are summarized below:

($ millions)	**2015**	2014
Asset retirement obligation at beginning of year	**2.2**	2.4
Interest accretion	**-**	0.1
Expenditures	**-**	(1.4)
Revisions to estimates	**-**	1.1
Asset retirement obligation at end of year	**2.2**	2.2

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

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

Total estimated undiscounted future cash flows required to comply with the PCB regulations is approximately $2.5 million. These expenditures are expected to be incurred over the period from 2016 to 2025 as follows:

($ millions)	
2016	0.2
2017	0.2
2018	0.2
2019	0.2
2020	0.3
Thereafter	1.4
	2.5

The credit-adjusted risk-free discount rates used to calculate the present value of the above obligation was 3.0 per cent. There are uncertainties in estimating future asset retirement costs due to the use of

13. OTHER LIABILITIES (continued)

assumptions. All factors used in estimating the Corporation's ARO represent management's best estimate of the costs required to meet existing legislation or regulations. It is possible that volumes of contaminated assets, inflation assumptions, cost estimates to perform the work and the assumed pattern of annual cash flows may differ significantly from the Corporation's current assumptions.

14. SHARE CAPITAL

Authorized Share Capital

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

Common Shares

Issued and outstanding common shares are as follows:

	2015		2014	
	Number of Shares	**Amount ($ millions)**	Number of Shares	Amount ($ millions)
Outstanding, beginning of year	**2,191,510**	**219.2**	2,191,510	219.2
Issued	**-**	**-**	-	-
Outstanding, end of year	**2,191,510**	**219.2**	2,191,510	219.2

15. EMPLOYEE FUTURE BENEFITS

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

Defined Benefit Pension Plans

The Corporation sponsors three defined benefit pension plans, one of which is closed to new entrants. Retirement benefits are based on employees' years of credited service and remuneration. Corporation contributions to the plans are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as at December 31, 2013 and the date of the next required valuations will be as at December 31, 2016.

Supplemental Plans

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

Defined Contribution Plans

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's 2015 net benefit cost related to this arrangement was $1.0 million (2014 - $1.0 million).

Other Post-Employment Benefits

The Corporation provides certain retired employees with OPEBs that include, depending on circumstances, supplemental health, dental and life insurance coverage. OPEBs are unfunded and the annual net benefit cost is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health-care cost escalation. The most recent actuarial valuation was completed as at December 31, 2013 and the next required valuation will be as at December 31, 2016.

15. EMPLOYEE FUTURE BENEFITS (continued)

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2015**	2014	**2015**	2014
Change in fair value of plan assets				
Balance, beginning of year	**163.5**	143.7	**-**	-
Actual return on plan assets	**9.2**	17.2	**-**	-
Employer contributions	**7.1**	7.3	**0.8**	0.7
Employee contributions	**3.3**	3.7	**-**	-
Benefits paid	**(8.5)**	(8.4)	**(0.8)**	(0.7)
Fair value, end of year	**174.6**	163.5	**-**	-
Change in projected benefit obligation				
Balance, beginning of year	**196.8**	172.5	**28.9**	28.4
Employee contributions	**3.3**	3.7	**-**	-
Current service cost	**5.1**	4.2	**1.1**	1.4
Interest costs	**7.9**	8.2	**1.2**	1.4
Benefits paid	**(8.5)**	(8.4)	**(0.8)**	(0.7)
Actuarial (gain) loss	**(2.0)**	16.6	**-**	(1.6)
Balance, end of year [1]	**202.6**	196.8	**30.4**	28.9
Unfunded status	**(28.0)**	(33.3)	**(30.4)**	(28.9)

[1] The accumulated benefit obligation for defined benefit pension plans, excluding assumptions about future salary levels, was $186.5 million (2014 - $182.0 million).

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2015**	2014	**2015**	2014
Other assets (note 5)	**(5.4)**	(2.2)	**-**	-
Accounts payable and other current liabilities (note 10)	**0.2**	0.1	**0.9**	0.8
Pension and other post-employment benefits	**33.2**	35.4	**29.5**	28.1
Net liability	**28.0**	33.3	**30.4**	28.9

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2015**	2014	**2015**	2014
Service costs	**5.1**	4.2	**1.1**	1.4
Interest costs	**7.9**	8.2	**1.2**	1.4
Expected return on plan assets	**(10.3)**	(9.2)	**-**	-
Amortization:				
Actuarial losses	**2.5**	2.2	**-**	0.2
Past service costs	**(0.9)**	(0.9)	**-**	-
Regulatory adjustment	**(0.2)**	3.8	**1.8**	1.0
Net benefit cost	**4.1**	8.3	**4.1**	4.0

15. EMPLOYEE FUTURE BENEFITS (continued)

Defined Benefit Pension Plan Assets

As at December 31, 2015 and 2014 the assets of the Corporation's defined benefit pension plans were invested on a weighted average as follows:

	Target Allocation	2015	2014
Equities	**50% - 60%**	**53%**	52%
Fixed income	**30% - 40%**	**33%**	34%
Real estate	**0% - 20%**	**14%**	14%
		100%	100%

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

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

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
($ millions)				
Equities	**93.1**	**-**	**-**	**93.1**
Fixed income	**-**	**56.7**	**-**	**56.7**
Real estate	**-**	**-**	**24.8**	**24.8**
	93.1	**56.7**	**24.8**	**174.6**

2014	Level 1	Level 2	Level 3	Total
($ millions)				
Equities	86.1	-	-	86.1
Fixed income	-	55.3	-	55.3
Real estate	-	-	22.1	22.1
	86.1	55.3	22.1	163.5

The following table is a reconciliation of changes in the fair value of defined benefit pension plan assets that have been measured using Level 3 inputs for the years ended December 31, 2015 and 2014.

Real Estate

($ millions)	**2015**	2014
Balance, beginning of year	**22.1**	19.3
Actual return on plan assets:		
Relating to assets still held at the reporting date	**1.5**	1.2
Relating to assets sold during the period	**-**	0.1
Purchases, sales and settlements	**1.2**	1.5
Balance, end of year	**24.8**	22.1

There were no transfers into or out of Level 3 during the years ended December 31, 2015 and 2014.

15. EMPLOYEE FUTURE BENEFITS (continued)

Significant Actuarial Assumptions

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2015	2014	**2015**	2014
Projected benefit obligation				
Discount rate as at December 31	**4.00%**	4.00%	**4.00%**	4.00%
Rate of compensation increase	**3.00%**	3.00%	**-**	-
Net benefit cost				
Discount rate as at January 1	**4.00%**	4.75%	**4.00%**	4.75%
Expected rate of return on plan assets [1]	**6.50%**	6.50%	**-**	-

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

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

	2015	2014
Health care trend rate:		
Initial rate during first year	**6.00%**	6.50%
Annual rate of decline in trend rate	**0.50%**	0.50%
Ultimate health care cost trend rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2018

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

2015	**1% Increase in Rate**	**1% Decrease in Rate**
($ millions)		
Increase (decrease) in benefit obligation	**2.0**	**(1.5)**
Increase (decrease) in service and interest costs	**0.2**	**(0.1)**

15. EMPLOYEE FUTURE BENEFITS (continued)

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

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2015**	2014	**2015**	2014
Regulatory asset, beginning of year	**35.3**	28.1	**3.2**	5.0
Net actuarial (gain) loss	**(0.7)**	8.5	**-**	(1.6)
Amortization of actuarial losses	**(2.5)**	(2.2)	**-**	(0.2)
Amortization of past service credit	**0.9**	0.9	**-**	-
Regulatory asset, end of year (note 8)	**33.0**	35.3	**3.2**	3.2

Net actuarial losses of $1.8 million and past service credit of $0.9 million will be amortized from regulatory assets into pension net benefit costs during 2016. Net actuarial losses of $nil will be amortized from regulatory assets into OPEB net benefit costs during 2016.

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

($ millions)	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2016	**8.1**	**0.9**
2017	**8.4**	**0.9**
2018	**8.6**	**1.0**
2019	**8.8**	**1.0**
2020	**9.1**	**1.1**
2021-2025	**49.2**	**6.6**
	92.2	**11.5**

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

16. FINANCE CHARGES

($ millions)	**2015**	2014
Interest on long-term debt (note 11)	**37.6**	38.0
Interest on short-term debt	**1.1**	1.7
Amortization of debt issuance costs	**0.2**	0.4
Capitalized interest [1]	**(0.2)**	0.5
	38.7	40.6

[1] Includes debt component of AFUDC and capitalized interest on certain non-rate base regulatory assets and liabilities.

17. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

($ millions)	**2015**	2014
Interest paid	**38.7**	35.7
Income taxes paid	**11.9**	13.0

Significant Non-Cash Transactions

($ millions)	**2015**	2014
Capital accruals	**(6.5)**	14.7
Deferred income tax liability	**11.0**	5.3
BPPA lease costs regulatory asset	**(6.9)**	(7.0)
Stepped and Stand-by Rate Decision (note 8)	**8.5**	-
Pension and OPEB unrecognized actuarial losses and past service costs regulatory asset	**2.3**	(5.4)

Changes in Non-Cash Working Capital

($ millions)	**2015**	2014
Accounts receivable	**(1.9)**	2.2
Prepaid expenses	**(0.4)**	0.1
Current regulatory assets and liabilities	**(3.8)**	(13.5)
Accounts payable and other current liabilities	**12.3**	15.2
Income taxes receivable and payable	**(8.3)**	(2.5)
	(2.1)	1.5
Changes in non-cash working capital attributable to:		
Operating activities	**(4.1)**	(13.2)
Investing activities included in property, plant and equipment and intangible assets	**(6.5)**	14.7
Operating activities included in long-term regulatory assets related to Stepped and Stand-by Rate Decision (note 8)	**8.5**	-
	(2.1)	1.5

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

($ millions)	**2015**	2014
Additions to property, plant and equipment and intangible assets included in current liabilities	**14.6**	21.1

18. INCOME TAXES

Deferred Income Taxes

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

($ millions)	**2015**	2014
Deferred income tax liability (asset)		
Property, plant and equipment	**133.4**	127.1
Intangible assets	**7.0**	6.0
Regulatory assets	**11.8**	8.5
Regulatory liabilities	**(6.4)**	(7.6)
Debt issuance costs	**1.4**	1.8
Employee future benefits	**(6.5)**	(5.2)
Other	**0.1**	(1.4)
Net deferred income tax liability	**140.8**	129.2

The net deferred income tax liability as at December 31, 2015 includes a $1.5 million (2014 - $1.1 million) long-term deferred income tax liability related to the Corporation's non-regulated WPP hydroelectric power plant assets (note 24).

Provision for Income Taxes

($ millions)	**2015**	2014
Current income taxes expense	**6.9**	11.7
Deferred income taxes expense	**11.6**	5.4
Regulatory adjustment	**(11.0)**	(5.3)
	0.6	0.1
Income taxes expense	**7.5**	11.8

Variation In Effective Income Tax Rate

Income taxes vary from the amount that would be computed by applying the Canadian federal and BC combined statutory income tax rate of 26.0 per cent (2014 – 26.0 per cent) to earnings before income taxes as shown in the following table:

	2015	2014
Combined statutory income tax rate	**26.0%**	26.0%
($ millions)		
Statutory income tax rate applied to earnings before income taxes	**13.8**	14.8
Items capitalized for accounting but expensed for income tax purposes	**(2.4)**	(2.7)
Difference between capital cost allowance and amounts claimed for accounting purposes	**(3.5)**	(3.8)
Difference between regulatory accounting items and amounts claimed for tax purposes	**(0.2)**	2.7
Difference between employee future benefits paid and amounts expensed for accounting purposes	**0.1**	1.1
Other	**(0.3)**	(0.3)
Actual income taxes expense	**7.5**	11.8
Effective income tax rate	**14.1%**	20.7%

18. INCOME TAXES (continued)

As at December 31, 2015, the Corporation had no non-capital or capital loss carryforwards. Taxation years 2010 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2010 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits. The Corporation does not have any unrecognized tax benefits as at December 31, 2015 and as such has not accrued any associated interest or penalties.

19. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchases and normal sales exception, including certain of the Corporation's power purchase contracts.

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

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

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

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

The fair values of the Corporation's financial instruments reflect point-in-time estimates based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

The carrying values of cash and cash equivalents, accounts receivable, energy management loans, accounts payable, other current liabilities and credit facilities on the consolidated balance sheets of FBC approximate their fair values.

Assets Held for Sale

The following table summarizes, by level within the fair value hierarchy, the Corporation's assets accounted for at fair value on a non-recurring basis.

($ millions)	**Fair Value Hierarchy**	**2015**	2014
Assets held for sale (note 24)	Level 2	**8.5**	-

The fair value of WPP hydroelectric power plant assets held for sale is estimated using the selling price included in the Asset Purchase Agreement ("APA"), less estimated costs to sell (note 24).

Financial Instruments Not Carried at Fair Value

The following table summarizes the fair value measurements of the Corporation's long-term debt as of December 31, 2015 and 2014, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at its carrying value:

	2015		2014	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1]	**685.0**	**801.7**	685.0	834.2

[1] Includes secured and unsecured debentures, exclusive of debt issuance costs, for which the carrying value is measured at cost.

19. FAIR VALUE MEASUREMENT (continued)

The fair value of long-term debt is estimated using quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

20. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

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

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation has secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements.

As at December 31, 2015, the Corporation had bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. Prior to April 2015, the operating credit facility was comprised of a $100 million three-year revolving facility maturing in May 2017 and a $50 million, 364-day revolving facility maturing in April 2015. In April 2015, the operating credit facility was amended such that the entire $150 million now matures in May 2018.

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 FBC's debt ratings provided by its credit rating agencies. The demand overdraft facility bears interest at prime, which at December 31, 2015, was 2.70 per cent.

20. FINANCIAL RISK MANAGEMENT (continued)

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

($ millions)	**December 31, 2015**	December 31, 2014
Operating credit facility	**150.0**	150.0
Demand overdraft facility	**10.0**	10.0
Draws on operating credit facility	**(50.9)**	(25.0)
Draws on overdraft facility	**(5.0)**	(6.9)
Credit facilities available	**104.1**	128.1

The Corporation targets investment grade credit ratings to maintain capital market access at reasonable interest rates. Debentures issued by the Corporation are rated by DBRS Limited ("DBRS") and Moody's Investors Service ("Moody's").

As at December 31, 2015, the Corporation's credit ratings were as follows:

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

Market Risk

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

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation's earnings are not materially exposed to changes in the US dollar-to-Canadian dollar exchange rate.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk associated with its operating credit facilities and overdraft facility and the refinancing of long-term debt. Regulated interest expense variances from forecast for rate-setting purposes are flowed through future rates using regulatory deferral accounts approved by the BCUC.

21. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, ultimate parent and other related companies under common control to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

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

($ millions)	**2015**	2014
Electricity revenue recovered from FEI (a)	**0.7**	0.6
Operating costs and other revenue charged to FortisBC Pacific (b)	**7.7**	6.4
Operating costs charged to FEI (c)	**5.1**	4.5
Operating costs charged to FortisBC Holdings Inc. (“FHI”) (d)	**0.5**	0.6
Other income charged to FortisBC Energy (Vancouver Island) Inc. (“FEVI”) (e)	**-**	0.1
	14.0	12.2

(a) The Corporation charged FEI 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 for management services.

(e) In late October 2014, the Corporation loaned $53.0 million by way of a demand note to FEVI. The demand note was unsecured, due on demand and the Corporation charged interest that approximated FEVI’s cost of short term borrowing. The demand note was repaid in late November 2014.

Related Party Costs

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

($ millions)	**2015**	2014
Power purchase costs charged by Waneta Expansion Limited Partnership (“WELP”) (a)	**30.2**	-
Operating costs charged by Fortis (b)	**1.9**	2.8
Operating costs charged by FEI (c)	**3.8**	3.7
Operating costs charged by FHI (d)	**0.6**	0.7
Finance charges charged by Fortis (e)	**-**	0.7
	36.5	7.9

(a) The Corporation was charged by WELP for purchasing capacity under the WECA.

(b) The Corporation was charged by its ultimate parent, Fortis, for corporate management services.

(c) The Corporation was charged by FEI for natural gas transmission and distribution sales, office rent, management services and other compensation.

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

(e) The Corporation was charged by Fortis for interest on demand notes.

21. RELATED PARTY TRANSACTIONS (continued)

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	**2015**		2014	
($ millions)	**Amount Due from**	**Amount Due to**	Amount Due from	Amount Due to
Fortis	**-**	**0.1**	-	-
FortisBC Pacific	**0.5**	**-**	0.5	-
FEI	**0.4**	**0.4**	1.1	0.2
FHI	**-**	**0.1**	0.1	0.1
WELP	**-**	**10.3**	-	-
	0.9	**10.9**	1.7	0.3

22. COMMITMENTS

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

($ millions)	**Power Purchase Obligations**	**Interest on Long-term Debt**	**Other**	**Pension Funding Obligations**	**Total**
2016	85.4	36.4	0.4	4.9	127.1
2017	79.5	35.4	0.4	-	115.3
2018	70.1	35.4	-	-	105.5
2019	68.1	35.4	2.5	-	106.0
2020	66.8	35.4	-	-	102.2
Thereafter	2,600.8	720.2	-	-	3,321.0
	2,970.7	**898.2**	**3.3**	**4.9**	**3,877.1**

Power Purchase Obligations

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

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 adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The Waneta Expansion is owned 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, beginning April 1, 2015. The WECA was accepted for filing as an energy supply contract by the BCUC in May 2012.

New BC Hydro Power Purchase Agreement ("New PPA")

During May 2013, FortisBC entered into the New PPA with BCH 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 was approved by the BCUC in May 2014 and was effective July 1, 2014. The New PPA replaces the 20 year supply arrangement between BCH and FortisBC that was entered into in 1993. The capacity and energy to be purchased under this agreement do not relate to a specific plant. The New PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative and is accounted for on an accrual basis.

22. COMMITMENTS (continued)

Capacity and Energy Purchase and Sale Agreement ("CEPSA")

In February 2015, FBC entered into the CEPSA with Powerex Corp. ("Powerex") which provides for FBC to purchase all of its market energy requirements from Powerex and for FBC to sell any surplus capacity to Powerex that may be available after FBC meets its load requirements. The CEPSA was accepted by the British Columbia Utilities Commission ("BCUC") in April 2015 and became effective beginning May 2015. As at December 31, 2015, the total power purchase obligations outstanding under the CEPSA were approximately $12 million through to the end of 2017. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.

Other Agreements

FortisBC has entered into other agreements to purchase fixed price, capacity and energy purchases through to the end of 2017. The purchases under these agreements do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.

Other

Other commitments include building leases, vehicle leases and a commitment to purchase fibre optic cable for approximately $2.5 million in 2019.

Pension Funding Obligations

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

23. CONTINGENCIES

Legal Proceedings

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, including FortisBC, through the 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 notified its insurers; however, FortisBC has been advised by counsel for the Province that a response to the claim is not required at this time. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

24. ASSETS HELD FOR SALE

In December 2015, FBC and its subsidiaries entered into an APA to sell the Corporation's non-regulated WPP hydroelectric power plant assets located in Lillooet, BC, for a sale price of approximately $9 million. The sale of the WPP assets is expected to close in the first quarter of 2016. As a result, the assets have been reclassified from property, plant and equipment to assets held for sale on the consolidated balance sheet as at December 31, 2015. For the year ended December 31, 2015, an impairment loss associated with the assets of $1.0 million was recognized in other (expenses) income, reflecting a reduction in the carrying value of the assets to the estimated fair value based on the selling price, less estimated costs to sell. In December 2015, FBC received a deposit of $0.9 million related to the transaction which has been recognized in accounts payable and other current liabilities.

For the year ended December 31, 2015, earnings before taxes of $0.7 million were recognized, excluding the impairment loss on the assets held for sale and expenses associated with the sale, compared to $0.5 million for the year ended December 31, 2014.

24. ASSETS HELD FOR SALE (continued)

Assets held for sale as at December 31, 2015 were as follows:

($ millions)	2015
WPP hydroelectric power plant assets	9.5
Impairment	(1.0)
Net assets held for sale	8.5

25. COMPARATIVE FIGURES

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