FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

Prepared in accordance with accounting principles generally accepted in the United States of America

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 over financial reporting 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 statementsare 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 filing with the 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 2017 annual consolidated financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisBC Inc.

Deloitte LLP, independent auditors appointed by the shareholder of FortisBC Inc. upon recommendation of the Audit Committee, have performed an audit of the 2017 annual consolidated financial statements and their report follows.

(Signed by)
Roger Dall'Antonia
President and Chief Executive Officer

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

Kelowna, Canada
February 14, 2018

Independent Auditor's Report

To the Shareholder of
FortisBC Inc.

We have audited the accompanying consolidated financial statements of FortisBC Inc., which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of earnings, changes in equity and cash flows for the year then ended, and the related notes, including 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 of America, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The consolidated financial statements of FortisBC Inc. for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 9, 2017.

Deloitte LLP

Chartered Professional Accountants
February 14, 2018
Vancouver, Canada

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

ASSETS	**2017**	2016
Current assets		
Accounts receivable (notes 4 and 21)	**$ 51**	$ 55
Prepaid expenses	**2**	2
Other assets (note 5)	**1**	1
Regulatory assets (note 8)	**5**	18
Total current assets	**59**	76
Property, plant and equipment, net (note 6)	**1,497**	1,455
Intangible assets, net (note 7)	**57**	55
Regulatory assets (note 8)	**335**	317
Other assets (note 5)	**6**	6
Goodwill (note 9)	**235**	235
TOTAL ASSETS	**$ 2,189**	$ 2,144
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 20)	**$ 54**	$ 94
Accounts payable and other current liabilities (notes 10 and 21)	**61**	63
Income taxes payable	**1**	6
Current portion of capital lease obligations (note 12)	**1**	1
Regulatory liabilities (note 8)	**7**	15
Total current liabilities	**124**	179
Long-term debt (note 11)	**729**	654
Capital lease obligations (note 12)	**319**	316
Regulatory liabilities (note 8)	**15**	8
Other liabilities (note 13)	**2**	2
Pension and other post-employment benefits (note 15)	**62**	65
Deferred income taxes (note 18)	**167**	152
Total liabilities	**1,418**	1,376
Commitments and Contingencies (note 22)		
Equity		
Common shares [a] (note 14)	**219**	219
Additional paid-in capital (note 9)	**322**	322
Retained earnings	**230**	227
Total equity	**771**	768
TOTAL LIABILITIES AND EQUITY	**$ 2,189**	$ 2,144

[a] Par value of $100 each; 500 million authorized common shares; 2.2 million issued and outstanding at December 31, 2017 and 2016.

Approved on behalf of the Board:

(Signed by) Brenda Eaton
Director

(Signed by) Roger Dall'Antonia
Director

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

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

	2017	2016
Revenues (note 21)		
Electricity revenue	**$ 365**	$ 335
Other revenue	**16**	26
Total revenues	**381**	361
Expenses		
Power purchase costs (note 21)	**141**	132
Operating costs (note 21)	**64**	64
Property and other taxes	**16**	16
Depreciation and amortization (notes 6, 7 and 8)	**62**	57
Total expenses	**283**	269
Operating income	**98**	92
Other income (note 23)	**1**	1
Finance charges (note 16)	**37**	37
Earnings before income taxes	**62**	56
Income tax expense (note 18)	**12**	7
Net earnings	**$ 50**	$ 49

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

	Common Shares	**Additional Paid-in Capital**	**Retained Earnings**	**Total**
As at December 31, 2015	$ 219	$ 322	$ 231	$ 772
Net earnings	-	-	49	49
Dividends on common shares	-	-	(53)	(53)
As at December 31, 2016	$ 219	$ 322	$ 227	$ 768
Net earnings	**-**	**-**	**50**	**50**
Dividends on common shares	**-**	**-**	**(47)**	**(47)**
As at December 31, 2017	**$ 219**	**$ 322**	**$ 230**	**$ 771**

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

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

	2017	2016
Operating activities		
Net earnings	**$ 50**	$ 49
Adjustments for non-cash items		
Depreciation and amortization (notes 6, 7 and 8)	**62**	57
Equity component of allowance for funds used during construction ("AFUDC")	**(1)**	-
Gain on sale of property, plant and equipment (note 23)	**-**	(1)
Deferred income taxes, net of regulatory adjustment (note 18)	**-**	(1)
Change in long-term regulatory assets and liabilities	**3**	4
Change in other assets and other liabilities	**-**	1
Changes in non-cash working capital (note 17)	**(10)**	(14)
Cash from operating activities	**104**	95
Investing activities		
Property, plant and equipment additions (note 17)	**(98)**	(69)
Intangible asset additions (note 17)	**(7)**	(5)
Contributions in aid of construction	**13**	8
Proceeds from sale of property, plant and equipment (note 23)	**-**	9
Cash used in investing activities	**(92)**	(57)
Financing activities		
Net proceeds from (repayment of) credit facilities	**(40)**	38
Issuance of long-term debt (note 11)	**75**	-
Repayment of long-term debt (note 11)	**-**	(25)
Dividends on common shares	**(47)**	(53)
Cash used in financing activities	**(12)**	(40)
Net change in cash	**-**	(2)
Cash at beginning of year	**-**	2
Cash at end of year	**$ -**	$ -

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 172,300 customers directly and indirectly. The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 225 megawatts ("MW"), approximately 7,260 kilometers of transmission and distribution power lines, and a peak demand of 746 MW.

In February 2016, FBC and its subsidiaries completed the sale of the 0395518 Power Partnership (formerly Walden Power Partnership) ("WPP") non-regulated 16 MW run-of-river hydroelectric power plant assets and subsequently dissolved the partnership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are presented in Canadian dollars unless otherwise specified. The consolidated financial statements include all adjustments that are of a recurring nature and necessary to present fairly the consolidated financial position of the Corporation.

The consolidated financial statements include the historical accounts of the Corporation and its wholly-owned partnership and subsidiaries, WPP, 0395518 B.C. Ltd. (formerly ESI Power-Walden Corporation Ltd.) and West Kootenay Power Ltd. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through February 14, 2018, the date these consolidated financial statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the consolidated financial statements as at December 31, 2017. 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 rates, construction, and financing.

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. B vThe impacts of rate regulation on the Corporation's operations for the years ending December 31, 2017 and 2016 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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Doubtful Accounts

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

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

Regulatory Assets and Liabilities

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

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

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

As approved by the BCUC, removal costs are collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the accrual balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer to the Corporation substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at the present value of the minimum lease payments. Included as 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.

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, 2017 and 2016.

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, 2017 and 2016.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 as of the date of the immediately preceding goodwill impairment test, was not significant. Irrespective of the above-noted criteria, the Corporation will estimate the fair value as at the annual impairment date, at a minimum once every five 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 2017 or 2016 and the Corporation concluded that it is more likely than not that the fair value of the reporting unit was greater than the 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. 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. There is a reasonable expectation that asset retirement costs would be recoverable through future rates.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Future Benefits

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

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

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and 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, or the expected average remaining life expectancy, of the employee group covered by the plans. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

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

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.

Fair Value

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

Derivative Financial Instruments

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.

Debt Issuance Costs

Costs incurred to arrange debt financing are recognized as a direct deduction from the carrying amount of the debt liability and are accounted for using the effective interest method over the life of the related financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales Taxes

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

Income Taxes

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

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

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

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

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

Segment Reporting

The Corporation has a single reportable segment.

Use of Accounting Estimates

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates is described in the "Summary of Significant Accounting Policies", in note 8 "Regulatory Assets and Liabilities", and note 22 "Commitments and Contingencies". Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Policies

Simplifying the Test for Goodwill Impairment

Effective January 1, 2017, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating step two in the current two-step goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The above-noted ASU was applied prospectively and did not impact the Corporation's annual consolidated financial statements for the year ended December 31, 2017.

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, along with additional ASUs issued in 2016 and 2017 to clarify implementation guidance, create Accounting Standards Codification ("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 clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyse an entity's revenues across industries and transactions.

The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, supplemented by additional disclosures. The Corporation adopted the guidance on January 1, 2018 using the modified retrospective method and there have been no adjustments identified to the opening balance sheet or retained earnings.

FBC has assessed tariff revenue, which represents more than 96 per cent of the Corporation's consolidated revenue at December 31, 2017, and has concluded that the adoption of this standard will not change the Corporation's accounting policy for recognizing tariff revenue and, therefore, will not have an impact on earnings. FBC has completed assessments and conclusions on less material revenue streams and does not expect any adjustments.

The Corporation will add additional disclosures to address the requirement to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows, which will result in revenues that fall outside the scope of the new standard, including alternative revenue programs, being presented separately. The Corporation will present revenue in three categories: (1) revenue from contracts with customers, which will include tariff revenue; (2) alternative revenue programs; and (3) other revenue. The Corporation's revenue is not currently disaggregated, but upon implementation of the new guidance FBC will disaggregate by customer class as it is consistent with other externally reported documents of the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and Measurement of Financial Assets and Financial Liabilities

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017. This update is not expected to have a material impact on its consolidated financial statements and related disclosures.

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. FBC is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. FBC is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable.

This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, however, early adoption must be within the first interim period of a reporting year. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The Corporation adopted this ASU on January 1, 2018 and there are no material adjustments expected on its consolidated financial statements and related disclosures.

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

In 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.

In January 2017, the BCUC issued its decision on FBC's 2017 rates. The decision results in a 2017 average rate base of approximately $1,285 million and a rate increase of 2.76 per cent over 2016 rates.

4. ACCOUNTS RECEIVABLE

($ millions)	**2017**	2016
Billed accounts receivable	**18**	22
Unbilled accounts receivable	**25**	23
Trade accounts receivable	**8**	9
Amounts due from related parties (note 21)	**2**	3
Allowance for doubtful accounts	**(2)**	(2)
Total accounts receivable	**51**	55

5. OTHER ASSETS

($ millions)	**2017**	2016
Materials and supplies	**1**	1
Pension asset (note 15)	**6**	6
Total other assets	**7**	7
Less: current portion	**1**	1
Total long-term other assets	**6**	6

The current portion of other assets is materials and supplies.

6. PROPERTY, PLANT AND EQUIPMENT

2017	**Cost**	**Accumulated Depreciation**	**Book Value**	**Weighted Average Depreciation Rate**
($ millions)				
Generation	**251**	**60**	**191**	**1.6%**
Transmission	**698**	**204**	**494**	**1.9%**
Distribution	**574**	**101**	**473**	**2.2%**
General	**188**	**86**	**102**	**5.1%**
Assets under capital lease	**293**	**77**	**216**	**2.0%**
Assets under construction	**21**	**-**	**21**	**-**
Total property, plant and equipment	**2,025**	**528**	**1,497**	

2016	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
($ millions)				
Generation	249	57	192	1.7%
Transmission	688	192	496	2.1%
Distribution	549	92	457	1.8%
General	166	84	82	5.2%
Assets under capital lease	290	71	219	2.0%
Assets under construction	9	-	9	-
Total property, plant and equipment	1,951	496	1,455	

As allowed by the BCUC, during the year ended December 31, 2017, the Corporation capitalized an allowance for debt and equity funds used during construction at approved rates of $1 million (2016 - $nil) and $1 million (2016 - $nil) respectively, and approved capitalized overhead costs of $9 million (2016 - $9 million).

Depreciation of property, plant and equipment, including a net salvage provision, for the year ended December 31, 2017 totalled $47 million (2016 - $46 million).

Included in property, plant and equipment are ARO costs totalling $2 million (2016 - $2 million). Depreciation of $nil million (2016 - $nil 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 million (2016 - $5 million) on the BPPA asset under capital lease was recorded in the BPPA lease costs regulatory asset (note 8) and depreciation of $1 million (2016 - $1 million) on the BTS asset under capital lease was recorded in the BTS lease costs regulatory asset (note 8).

7. INTANGIBLE ASSETS

2017	**Cost**	**Accumulated Amortization**	**Book Value**
($ millions)			
Software	**85**	**59**	**26**
Land rights	**36**	**5**	**31**
Total intangible assets	**121**	**64**	**57**

2016	Cost	Accumulated Amortization	Book Value
($ millions)			
Software	80	55	25
Land rights	34	4	30
Total intangible assets	114	59	55

Amortization of intangible assets for the year ended December 31, 2017 totalled $5 million (2016 - $5 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 6.6 per cent (2016 – 6.6 per cent). Amortization of land rights is recorded on a straight-line basis using an amortization rate of 1.3 per cent (2016 – 1.3 per cent).

Included in the cost of land rights at December 31, 2017 was $15 million (2016 - $15 million) not subject to amortization.

For intangibles subject to amortization at December 31, 2017, the amortization expense is estimated to average approximately $6 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)	**2017**	2016	**Remaining Recovery Period (years)**
Regulatory assets			
Energy efficiency and conservation program	**22**	20	10
Pension and OPEB unrecognized actuarial losses and past service costs (note 15)	**34**	37	Ongoing
Pension and OPEB transition and variance asset	**2**	3	6
BPPA lease costs	**98**	91	39
BTS lease costs	**6**	6	30
Regulated asset for deferred income taxes	**169**	154	Ongoing
Income taxes recoverable on OPEBs	**5**	5	Ongoing
Stepped and Stand-by Rate Decision	**-**	9	-
Flow-through variances	**-**	5	-
Meter retirement costs	**2**	3	2
Other recoverable costs	**2**	2	Various
Total regulatory assets	**340**	335	
Less: current portion	**5**	18	
Long-term portion of regulatory assets	**335**	317	

($ millions)	**2017**	2016	**Remaining Recovery Period (years)**
Regulatory liabilities			
Flow-through variances	**9**	13	1-2
Net salvage provision	**12**	6	Ongoing
Pension and OPEB cost variance	**-**	3	1-3
Debt issuance costs under effective interest method	**1**	1	33
Total regulatory liabilities	**22**	23	
Less: current portion	**7**	15	
Long-term portion of regulatory liabilities	**15**	8	

Net amortization expense of regulatory assets and liabilities, excluding a net salvage provision, for the year ended December 31, 2017 totalled $10 million (2016 - $6 million).

Energy Efficiency and Conservation Program

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 asset balance is expected to be recovered from customers in future rates over an average of 10 years as approved by the BCUC.

8. REGULATORY ASSETS AND LIABILITIES (continued)

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 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 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.

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, and 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, and is not subject to a regulatory return.

Regulated Asset for 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 regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable, and 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, and is not subject to a regulatory return.

8. REGULATORY ASSETS AND LIABILITIES (continued)

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 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 $8 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 2017 rates from other customers. The payment was made to the customer during 2016.

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, and 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, 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. These regulatory asset and liability balances are expected to be recovered from, or refunded to, 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.

The flow-through variance regulatory liability (asset in 2016) includes the current year's flow-through variance, the over collection of 2014 revenue established per the 2014 PBR Decision which was fully refunded by the end of 2017, 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. This regulatory liability is not subject to a regulatory return.

Net Salvage Provision

The net salvage provision account captures the provision for costs which will be incurred to remove assets from service in a future period. As actual removal costs are incurred, the net salvage provision account is drawn down. As at December 31, 2017 $10 million (2016 - $10 million) was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the year ended December 31, 2017 were $4 million (2016 - $4 million).

Pension and OPEB Cost Variance

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

9. GOODWILL

($ millions)	**2017**	2016
Resulting from the push-down effects of the acquisition of FBC by Fortis	**220**	220
Associated with the acquisition of Princeton Light & Power Company, Limited ("PLP") by FBC	**1**	1
Associated with the acquisition of the City of Kelowna electrical utility business by FBC	**14**	14
Total goodwill	**235**	235

There was no impairment of goodwill for the years ended December 31, 2017 and 2016.

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 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)	**2017**	2016
Employee compensation and benefits payable	**11**	11
Trade accounts payable	**17**	16
Power purchase and wheeling accruals	**5**	6
Customer deposits	**7**	9
Interest payable	**7**	7
Other current liabilities	**1**	2
Pension and other post-employment benefits (note 15)	**1**	1
Amounts due to related parties (note 21)	**12**	11
Total accounts payable and other current liabilities	**61**	63

11. LONG-TERM DEBT

($ millions)	**2017**	2016
Secured Debentures		
Series G 8.8% due August 28, 2023	**25**	25
Unsecured Debentures		
Series I 7.81% due December 1, 2021	**25**	25
Series 05-1 5.60% due November 9, 2035	**100**	100
Series 07-1 5.90% due July 4, 2047	**105**	105
Medium Term Note Debentures Series 1 6.10% due June 2, 2039	**105**	105
Medium Term Note Debentures Series 2 5.00% due November 24, 2050	**100**	100
Medium Term Note Debentures Series 3 4.00% due October 28, 2044	**200**	200
Medium Term Note Debentures Series 4 3.62% due December 6, 2049	**75**	-
Total long-term debt	**735**	660
Less: debt issuance costs	**6**	6
Total long-term debt, net of debt issuance costs	**729**	654

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 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 December 4, 2017, FBC entered into an agreement with a Canadian Chartered bank to sell $75 million of unsecured Medium Term Note Debentures ("MTN Debentures") Series 4. The MTN Debentures bear interest at a rate of 3.62 per cent to be paid semi-annually and mature on December 6, 2049. The closing of the issuance occurred on December 6, 2017, with net proceeds being used to repay existing credit facilities.

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, 2017.

See note 22 "Commitments and Contingencies" for principal payments required over the next five years and thereafter.

12. CAPITAL LEASE OBLIGATIONS

($ millions)	**2017**	2016
Capital lease obligations	**320**	317
Less: current portion of capital lease obligations	**1**	1
Long-term portion of capital lease obligations	**319**	316

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 $29 million (2016 - $29 million) of interest expense relating to the BPPA obligation and $5 million (2016 - $5 million) of depreciation expense relating to the BPPA capital lease asset, a total of $27 million (2016 - $27 million) was recognized in power purchase costs for 2017, as approved by the BCUC, with the balance of $7 million (2016 - $7 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 million (2016 - $2 million) of interest expense relating to the BTS Obligation and $1 million (2016 - $1 million) of depreciation expense relating to the BTS capital lease asset, a total of $3 million (2016 - $3 million) was recognized in operating costs for 2017, as approved by the BCUC, with the balance of $nil (2016 - $nil) 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**
2018	3	40	43
2019	3	41	44
2020	3	41	44
2021	3	42	45
2022	3	43	46
Thereafter	59	1,890	1,949
	74	2,097	2,171
Less: amounts representing imputed interest and executory costs	51	1,800	1,851
Total capital lease obligations	23	297	320
Less: current portion	1	-	1
Total capital lease obligations	22	297	319

13. OTHER LIABILITIES

($ millions)	**2017**	2016
Asset retirement obligation	**2**	2

Asset Retirement Obligation

FBC has recognized 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 is 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.

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 is based on a best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There were no expenditures or revisions to estimates of the ARO during 2017 or 2016. Interest accretion recognized was $nil (2016 - $nil).

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.

Total estimated undiscounted future cash flows required to comply with the PCB regulations is approximately $3 million. These expenditures are expected to be incurred over the period from 2018 to 2025 as follows:

($ millions)	
2018	1
2019	-
2020	1
2021	-
2022	-
Thereafter	1
Total estimated undiscounted future cash flows	**3**

The credit-adjusted risk-free discount rates used to calculate the present value of the above obligation is 3.0 per cent.

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:

	2017		2016	
	Number of Shares	**Amount ($ millions)**	Number of Shares	Amount ($ millions)
Outstanding, beginning of year	**2,191,510**	**219**	2,191,510	219
Issued	**-**	**-**	-	-
Outstanding, end of year	**2,191,510**	**219**	2,191,510	219

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, 2016 and the date of the next required valuations will be as at December 31, 2019.

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 2017 net benefit cost related to this arrangement was $2 million (2016- $1 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, 2016 and the next valuation is expected to be as at December 31, 2019.

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)	**2017**	2016	**2017**	2016
Change in fair value of plan assets				
Balance, beginning of year	**189**	175	**-**	-
Actual return on plan assets	**15**	14	**-**	-
Employer contributions	**5**	5	**1**	1
Employee contributions	**3**	3	**-**	-
Benefits paid	**(9)**	(8)	**(1)**	(1)
Fair value, end of year	**203**	189	**-**	-
Change in projected benefit obligation				
Balance, beginning of year	**216**	203	**33**	31
Employee contributions	**3**	3	**-**	-
Current service cost	**6**	5	**1**	1
Interest costs	**8**	8	**1**	1
Benefits paid	**(9)**	(8)	**(1)**	(1)
Actuarial (gain) loss	**9**	5	**(7)**	1
Balance, end of year [1]	**233**	216	**27**	33
Unfunded status	**(30)**	(27)	**(27)**	(33)

[1] The accumulated benefit obligation for defined benefit pension plans, excluding assumptions about future salary levels, was $211 million (2016 - $195 million).

15. EMPLOYEE FUTURE BENEFITS (continued)

The following table summarizes the employee future benefit assets and liabilities and their classification in the consolidated balance sheets. The total pension and OPEB liability recognized on the consolidated balance sheet was $62 million (2016 - $65 million).

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2017**	2016	**2017**	2016
Other assets (note 5)	**(6)**	(6)	**-**	-
Accounts payable and other current liabilities (note 10)	**-**	-	**1**	1
Pension and other post-employment benefits	**36**	33	**26**	32
Net liability	**30**	27	**27**	33

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)	**2017**	2016	**2017**	2016
Service costs	**6**	5	**1**	1
Interest costs	**8**	8	**1**	1
Expected return on plan assets	**(11)**	(10)	**-**	-
Amortization:				
Actuarial losses	**2**	2	**-**	-
Past service costs	**(1)**	(1)	**-**	-
Regulatory adjustment	**-**	-	**1**	1
Net benefit cost	**4**	4	**3**	3

Defined Benefit Pension Plan Assets

As at December 31, 2017 and 2016 the assets of the Corporation's defined benefit pension plans were invested on a weighted average as follows:

	Target Allocation	2017	2016
Equities	**50%**	**51%**	50%
Fixed income	**30% - 50%**	**34%**	36%
Real estate	**0% - 20%**	**15%**	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.

15.EMPLOYEE FUTURE BENEFITS (continued)

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

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
($ millions)				
Equities	**103**	**-**	**-**	**103**
Fixed income	**-**	**70**	**-**	**70**
Real estate	**-**	**-**	**30**	**30**
	103	**70**	**30**	**203**

2016	Level 1	Level 2	Level 3	Total
($ millions)				
Equities	97	-	-	97
Fixed income	-	65	-	65
Real estate	-	-	27	27
	97	65	27	189

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, 2017 and 2016.

($ millions)	**2017**	2016
Balance, beginning of year	**27**	25
Actual return on plan assets:		
Relating to assets still held at the reporting date	**3**	2
Purchases, sales and settlements	**-**	-
Balance, end of year	**30**	27

There were no transfers into or out of Level 3 during the years ended December 31, 2017 and 2016.

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	
	2017	2016	**2017**	2016
Projected benefit obligation				
Discount rate as at December 31	**3.50%**	3.75%	**3.50%**	3.75%
Rate of compensation increase	**3.00%**	3.00%	**-**	-
Net benefit cost				
Discount rate as at January 1	**3.75%**	4.00%	**3.75%**	4.00%
Expected rate of return on plan assets	**6.00%**	6.00%	**-**	-

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

	2017	2016
Health care trend rate:		
Initial rate at December 31	**5.00%**	5.50%
Annual rate of decline in trend rate	-	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:

2017	**1% Increase in Rate**	**1% Decrease in Rate**
($ millions)		
Increase (decrease) in benefit obligation	**3**	**(2)**
Increase (decrease) in service and interest costs	**-**	**-**

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. The total unrecognized actuarial losses and past service costs for pension and OPEB that was recognized as a regulatory asset was $34 million (2016 - $37 million).

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2017**	2016	**2017**	2016
Regulatory asset, beginning of year	**33**	33	**4**	3
Net actuarial (gain) loss	**5**	1	**(7)**	1
Amortization of actuarial losses	**(2)**	(2)	**-**	-
Amortization of past service credit	**1**	1	**-**	-
Regulatory asset, end of year (note 8)	**37**	33	**(3)**	4

Net actuarial losses of $2 million and past service credit of $1 million will be amortized from regulatory assets into pension net benefit costs during 2018. Net actuarial losses of $nil will be amortized from regulatory assets into OPEB net benefit costs during 2018.

15. EMPLOYEE FUTURE BENEFITS (continued)

Under the terms of the defined benefit pension plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The Corporation's estimated 2018 contributions are $4 million.

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
2018	**8**	**1**
2019	**9**	**1**
2020	**9**	**1**
2021	**10**	**1**
2022	**10**	**1**
2023-2027	**56**	**4**
	102	**9**

16. FINANCE CHARGES

($ millions)	**2017**	2016
Interest on long-term debt [1] (note 11)	**36**	36
Interest on short-term debt [2] (note 20)	**2**	1
Debt component of AFUDC	**(1)**	-
Total finance charges	**37**	37

[1] Includes amortization of debt issuance costs.
[2] Includes capitalized interest on certain non-rate base regulatory assets and liabilities.

17. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the consolidated statements of cash flows for the years ended December 31 are as follows:

($ millions)	**2017**	2016
Interest paid	**38**	39
Income taxes paid	**15**	3

Significant Non-Cash Transactions

($ millions)	**2017**	2016
Change in capital expenditures	**-**	(2)
Regulated asset for deferred income taxes	**(15)**	(12)
BPPA lease costs regulatory asset	**(7)**	(7)
Pension and OPEB unrecognized actuarial losses and past service costs regulatory asset	**3**	(1)

17. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Changes in Non-Cash Working Capital

($ millions)	**2017**	2016
Accounts receivable	**3**	(3)
Accounts payable and other current liabilities	**(3)**	(5)
Income taxes payable	**(5)**	11
Net current regulatory assets and liabilities	**(5)**	(17)
Change in non-cash working capital per statements of cash flows	**(10)**	(14)

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

($ millions)	**2017**	2016
Accrued capital expenditures	**13**	13

18. INCOME TAXES

Deferred Income Taxes

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

($ millions)	**2017**	2016
Deferred income tax liability (asset)		
Property, plant and equipment	**160**	143
Intangible assets	**9**	7
Regulatory assets	**10**	13
Regulatory liabilities	**(3)**	(5)
Debt issuance costs	**1**	1
Employee future benefits	**(8)**	(8)
Other	**(2)**	1
Net deferred income tax liability	**167**	152

Provision for Income Taxes

($ millions)	**2017**	2016
Current income taxes expense	**12**	8
Deferred income taxes expense	**15**	11
Regulatory adjustment	**(15)**	(12)
Deferred income taxes expense, net of regulatory adjustment	**-**	(1)
Income taxes expense	**12**	7

18. INCOME TAXES (continued)

Variation in Effective Income Tax Rate

Income taxes vary from the amount that would be computed by applying the Canadian federal and BC combined statutory income tax rate of 26.0 per cent (2016 – 26.0 per cent) to earnings before income taxes as shown in the following table:

	2017	2016
Combined statutory income tax rate	**26.0%**	26.0%
($ millions)		
Statutory income tax rate applied to earnings before income taxes	**16**	14
Items capitalized for accounting but expensed for income tax purposes	**(3)**	(2)
Difference between capital cost allowance and amounts expensed for accounting purposes	**(4)**	(4)
Difference between regulatory accounting items and amounts claimed for tax purposes	**3**	-
Other	**-**	(1)
Actual income taxes expense	**12**	7
Effective income tax rate	**19.1%**	12.1%

Taxation years 2012 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2012 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits.

As at December 31, 2017, the Corporation had no non-capital or capital losses carried forward.

During the year ended December 31, 2017, the Province of BC enacted a corporate income tax rate increase of 1.0 per cent effective January 1, 2018. As a result, the combined Federal and BC provincial corporate tax rate will increase from 26.0 per cent to 27.0 per cent in 2018. The following table summarizes the impact of corporate income tax rate change as at December 31, 2017:

($ millions)	**2017**
Increase in deferred income tax liability	**8**
Increase in regulated asset for deferred income taxes	**8**
Increase in deferred income tax expense	**-**

19. FAIR VALUE MEASUREMENTS

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

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

Financial Instruments Not Carried at Fair Value

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

- The carrying values of cash, accounts receivable, accounts payable, other current liabilities and credit facilities on the consolidated balance sheets of the Corporation approximate their fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.

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

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The following table includes the carrying value and estimated fair value of the Corporation's long-term debt:

		2017		2016	
($ millions)	**Fair Value Hierarchy**	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Liabilities					
Long-term debt [1]	Level 2	**735**	**902**	660	791

[1] Includes secured and unsecured debentures for which the carrying value is measured at cost. Carrying value excludes unamortized debt issuance costs of $6 million (2016 - $6 million).

20. CREDIT FACILITIES

As at December 31, 2017, the Corporation had bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. During 2017, the $150 million operating credit facility was amended such that it now matures in May 2022.

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, 2017, was 3.20 per cent (December 31, 2016 - 2.70 per cent).

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

($ millions)	**December 31, 2017**	December 31, 2016
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(50)**	(91)
Draws on overdraft facility	**(4)**	(3)
Letters of credit outstanding	**(1)**	(1)
Credit facilities available	**105**	65

21. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, ultimate parent, Fortis, and other related companies under common control, including FortisBC Energy Inc. ("FEI"), FortisBC Holdings Inc. ("FHI") and the Waneta Expansion Limited Partnership ("WELP"), primarily under the WECA, 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)	**2017**	2016
Operating costs and other revenue charged to FortisBC Pacific (a)	**7**	7
Electricity revenue recovered from FEI (b)	**1**	1
Operating costs charged to FEI (b)	**7**	6
Operating costs charged to WELP (c)	**-**	2
Total related party recoveries	**15**	16

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

(b) The Corporation charged FEI for electricity sales, management services and other labour.

(c) The Corporation charged WELP for the recovery of a portion of water fees billed to FBC by the Province of BC during 2016 that related to WELP.

Related Party Costs

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

($ millions)	**2017**	2016
Power purchase costs charged by WELP (a)	**46**	45
Operating costs charged by Fortis (b)	**2**	3
Operating costs charged by FEI (c)	**5**	4
Operating costs charged by FHI (d)	**1**	-
Total related party costs	**54**	52

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

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

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

(d) The Corporation was charged by FHI for management services and governance costs.

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	**2017**		2016	
($ millions)	**Amount Due from**	**Amount Due to**	Amount Due from	Amount Due to
Fortis (a)	**1**	**-**	1	-
FortisBC Pacific	**-**	**-**	1	-
FEI	**1**	**(1)**	1	-
WELP	**-**	**(11)**	-	(11)
Total due from (due to) related parties	**2**	**(12)**	3	(11)

(a) Included in accounts receivable is an amount due from Fortis related to the allocation from Fortis to FBC of the Part VI.1 tax associated with preference share dividends.

In March 2016, FEI paid FBC $6 million to repay FBC for funds that were transferred from FBC's tax instalment account at the Canada Revenue Agency ("CRA") to FEI's tax instalment account at the CRA. The transfer resulted in a decrease to FBC's income tax receivable balance and a decrease to FEI's income taxes payable balance as permitted by the CRA for associated entities.

22. COMMITMENTS AND CONTINGENCIES

Commitments

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

As at December 31, 2017	**Total**	**Due Within 1 Year**	**Due in Year 2**	**Due in Year 3**	**Due in Year 4**	**Due in Year 5**	**Due After 5 Years**
($ millions)							
Power purchase obligations (a)	2,982	89	83	79	78	76	2,577
Capital lease obligations (note 12)	2,171	43	44	44	45	46	1,949
Interest obligations on long-term debt	913	38	38	38	38	36	725
Long-term debt [1]	735	-	-	-	25	-	710
Other (b)	11	5	3	1	-	1	1
Totals	6,812	175	168	162	186	159	5,962

[1] Excludes unamortized debt issuance costs of $6 million.

(a) 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")

In 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 CPC and CBT. It allows FortisBC to purchase capacity over 40 years, beginning April 1, 2015. The WECA was accepted by the BCUC in May 2012.

22. COMMITMENTS AND CONTINGENCIES (continued)

BC Hydro Power Purchase Agreement ("BCH PPA")

In 2013, FortisBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20 year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014 The capacity and energy to be purchased under this agreement do not relate to a specific plant. The BCH PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative.

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

In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex 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 BCUC in April 2015 and became effective beginning May 2015. As at December 31, 2017, the total power purchase obligations outstanding under the CEPSA were approximately $10 million through to the end of 2019. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.

Brilliant Expansion Capacity and Energy Purchase Agreement

During September 2017, FortisBC entered into an agreement to purchase capacity and energy from CPC, acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

(b) Included in other contractual obligations are building leases, vehicle leases, defined benefit pension plan funding obligations, asset retirement obligations, and a commitment to purchase fibre optic cable in 2019.

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 FBC, 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. FBC has notified its insurers of this claim. In December 2017, FBC was advised by counsel for the Province that the Province is requesting that all defendants agree to a consent dismissal order which will dismiss the claim without costs to any party. FBC has agreed to the consent dismissal order and is waiting on confirmation that the other defendants will agree to the consent dismissal order. The outcome cannot be reasonably determined or estimated at this time and, accordingly, no amount has been accrued in the financial statements.

23. SALE OF ASSETS

In February 2016, FBC and its subsidiaries sold the WPP non-regulated assets for gross proceeds of approximately $9 million. As a result, FBC recognized a gain on sale of approximately $1 million, after tax and transactions costs, in other income in the first quarter of 2016.

24. GUARANTEES

The Corporation has letters of credit outstanding at December 31, 2017 totaling $1 million (December 31, 2016 - $1 million) which were primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.