FortisBC Inc.
Management Discussion & Analysis
For the Three and Six Months Ended June 30, 2013
Dated August 1, 2013

The following FortisBC Inc. ("FortisBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2013 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and is presented in Canadian dollars unless otherwise specified. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2013, with 2012 comparatives prepared in accordance with US GAAP and the annual audited consolidated financial statements and notes thereto together with the MD&A for the year ended December 31, 2012, with 2011 comparatives, prepared in accordance with US GAAP.

FORWARD LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expectations to meet interest payments on outstanding indebtedness from internally generated funds; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through lines of credit, debt issues, equity contributions and internally generated funds, and the Corporation's expectation for employee future benefit costs, the forecast average rate base for 2014, and the expectation that power purchases from the New BC Hydro Power Purchase Agreement will be recovered in customer rates.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2014; absence of equipment breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; no significant decline in interest rates; continued electricity demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit rating agencies; that counterparties do not default on power supply contracts; no weather related demand loss; and, climate change does not reduce water flows.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); transition to new accounting standards risk; equipment breakdown, operating and maintenance risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; interest rate risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; power supply purchase and sale contracts risk; weather related demand loss risk; climate change risk; and, other risks described in the Corporation's most recent Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A and the Corporation's MD&A for the year ended December 31, 2012.

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

CORPORATE OVERVIEW

FortisBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 163,000 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity.

The Corporation's regulated business includes four hydroelectric generating plants with an aggregate capacity of 223 megawatts ("MW"), approximately 7,000 kilometers of transmission and distribution power lines, and a peak demand of 746 MW. Included in FortisBC's non-regulated assets is a 16 MW run-of-river hydroelectric power plant near Lillooet, BC.

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

REGULATION

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

In February 2012, the British Columbia Utilities Commission ("BCUC") established that a Generic Cost of Capital ("GCOC") Proceeding would occur and in April 2012, issued a final scoping document identifying specific items that would be reviewed as part of the GCOC Proceeding.

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

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for FEI and all other regulated entities in BC that rely on the benchmark utility to establish rates were to be maintained and made interim. In May 2013, the BCUC issued its decision on the first phase of the GCOC Proceeding. The decision determined that the ROE of the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component, both effective January 1, 2013. The common equity component in capital structure will remain in effect through December 31, 2015. Effective January 2014, the BCUC is also introducing an Automatic Adjustment Mechanism ("AAM") to set the ROE on an annual basis for the benchmark utility. The AAM will take effect when the actual long-term Government of Canada bond yield exceeds 3.8 per cent. The formula will be in effect until December 31, 2015.

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

In March 2013, the BCUC initiated the second phase of the GCOC Proceeding and the review process for the second phase is underway, with a decision expected in the first half of 2014. In July 2013, FortisBC filed risk premium and equity ratio evidence for the second phase of the GCOC Proceeding.

Kettle Valley Distribution Source Project Capital Expenditure Prudency Review Decision

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

City of Kelowna Electrical Utility Business Acquisition

FortisBC purchased the City of Kelowna's (the "City") electrical utility business on March 29, 2013 for approximately $55 million. The completion of this transaction allows FortisBC to directly serve the approximate 15,000 customers formerly served by the City. Prior to the acquisition FortisBC had provided the City with electricity under a wholesale tariff and operated and maintained their assets since 2000.

The BCUC approval of the acquisition in early March 2013 allowed for approximately $38 million of the $55 million purchase price to be included in FortisBC's rate base. The cash purchase price of approximately $55 million was financed through draws on the Corporation's operating credit facilities. The purchase price was allocated as approximately $38 million to property, plant and equipment, approximately $3 million to deferred income tax asset and approximately $14 million to goodwill. The acquisition, which qualifies as a business combination, has been accounted for using the acquisition method, whereby financial results of the business acquired have been consolidated in the financial statements of FortisBC beginning on the acquisition date of March 29, 2013.

Advanced Metering Infrastructure ("AMI")

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

The BCUC issued a decision on July 23, 2013 which approved capital expenditures of approximately $51 million for AMI. As a condition of the BCUC approval, FortisBC has confirmed that it will file, by November 2013, an application for an opt-out provision which would require the incremental cost of opting-out of AMI to be borne by customers who choose to opt-out.

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

On July 5, 2013, FBC filed an application for a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018. The application assumes a forecast average rate base for the Corporation of approximately $1,227 million for 2014. This application requests approval of a customer rate increase for 2014 of approximately 3.3 per cent determined under a formula approach for operating and capital costs, and a continuation of this rate setting methodology for a further four years. The review process for the application will continue throughout 2013.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year to date		
Periods Ended June 30	**2013**	2012	Variance	**2013**	2012	Variance
Electricity sales (GWh)	**695**	689	6	**1,588**	1,600	(12)
($ millions)						
Electricity revenue	**66.8**	61.6	5.2	**150.7**	143.5	7.2
Other revenue	**(0.7)**	1.8	(2.5)	**(0.1)**	3.0	(3.1)
Power purchase costs	**14.6**	13.0	1.6	**39.1**	38.4	0.7
Operating costs	**19.5**	17.1	2.4	**37.2**	35.3	1.9
Depreciation and amortization	**12.5**	12.1	0.4	**24.9**	24.3	0.6
Other income [1]	**0.4**	0.1	0.3	**0.9**	0.2	0.7
Finance charges [2]	**9.8**	9.9	(0.1)	**19.3**	19.9	(0.6)
Income taxes	**2.1**	2.2	(0.1)	**5.7**	4.5	1.2
Net Earnings	**8.0**	9.2	(1.2)	**25.3**	24.3	1.0

[1] Includes equity component of AFUDC.

[2] Net of debt component of AFUDC.

Net Earnings

Net earnings for the second quarter ended June 30, 2013 were $8.0 million, a decrease of $1.2 million from the $9.2 million of net earnings in the second quarter of 2012. On a year-to-date basis, net earnings were $25.3 million, an increase of $1.0 million from the $24.3 million of net earnings for the same period in 2012.

The Corporation's results of operations for 2013 reflect the BCUC's decision on the first phase of the GCOC Proceeding; the interim allowed ROE of FortisBC decreased to 9.15 per cent (previously 9.9 per cent) effective January 1, 2013, while the deemed equity component of capital structure remained unchanged at 40 per cent. Electricity rates for 2012 reflect an allowed ROE of 9.9 per cent and a deemed equity component of capital structure of 40 per cent as approved by the BCUC in the 2012-2013 Revenue Requirements Application ("2012-2013 RRA") decision.

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

The decrease in net earnings for the second quarter of 2013 as compared to the second quarter of 2012 was primarily due to the following:

- a decrease in FortisBC's interim allowed ROE as a result of the BCUC's decision on the first phase of the GCOC Proceeding, the effects of which were recognized during the quarter in the amount of $1.8 million and were retroactive to the effective date of January 1, 2013,

partially offset by,

- a decrease in interest expense as compared to the forecasted amounts used to set 2013 rates,
- earnings from the City of Kelowna electrical utility business acquired on March 29, 2013, and
- an increase in AFUDC recognized as directed by the BCUC.

On a year-to-date basis, the increase in net earnings for the six months ended June 30, 2013 as compared to the same period in 2012 was primarily due to the following:

- an increase in rate base driven by ongoing investment in electricity infrastructure,
- a decrease in interest expense as compared to the forecasted amounts used to set 2013 rates,
- earnings from the City of Kelowna electrical utility business acquired on March 29, 2013, and
- an increase in AFUDC recognized as directed by the BCUC,

partially offset by,

- a $1.8 million effect from the decrease in FortisBC's interim allowed ROE effective January 1, 2013, and
- an increase in income tax expense driven primarily by lower tax timing differences.

Electricity Sales

Electricity sales for the second quarter of 2013 are generally consistent with the same period from the prior year. On a year-to-date basis, the decrease in electricity sales was primarily due to warmer than normal weather in the first quarter of 2013.

Electricity Revenue

The increase in electricity revenue in the second quarter was primarily due to a 4.2 per cent interim rate increase effective January 1, 2013 and the increased revenue resulting from the City of Kelowna electrical utility business acquired on March 29, 2013. On a year-to-date basis, the increase in electricity revenue was primarily due to the 4.2 per cent interim rate increase and the increased revenue resulting from the City of Kelowna electrical utility business acquisition, partially offset by a decrease in electricity sales.

Other Revenue

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

The decrease in other revenue for both comparable periods was primarily due to an increase in flow-through variance deferrals owing to customers recognized in 2013, including the effects of the decision on the first phase of the GCOC Proceeding and the benefits owing back to customers from the City of Kelowna utility business acquisition, as compared to the same periods for 2012.

Power Purchase Costs

The increase in power purchase costs for both comparable periods was primarily due to higher average power purchase prices, partially offset by a higher proportion of generated power versus purchased power as compared to the same period in the prior year.

Operating Costs

Operating costs include operating and maintenance expenses, property taxes, water fees and wheeling. The increase in operating costs for both comparable periods was primarily due to labour escalation and general inflationary increases as well as the timing of incurring operating and maintenance costs.

Depreciation and Amortization

The increase in depreciation and amortization for both comparable periods was primarily due to the increase in the depreciable asset base of the Corporation.

Other Income

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

Finance Charges

Finance charges for the quarter were generally consistent with same period from the prior year as a result of an increase in the debt component of AFUDC as directed by the BCUC and the repayment of the higher interest bearing Series F $15 million debenture, which matured in the fourth quarter of 2012, offset by the increase in interest on the credit facilities used in part to finance the acquisition of the City of Kelowna electrical utility business.

On a year-to-date basis, the decrease was primarily due to an increase in the debt component of AFUDC as directed by the BCUC and the repayment of the higher interest bearing Series F $15 million debenture, which matured in the fourth quarter of 2012, partially offset by the increase in interest on the credit facilities used in part to finance the acquisition of the City of Kelowna electrical utility business.

Income Taxes

The decrease in income tax expense in the second quarter was primarily due to a decrease in earnings before income taxes, partially offset by lower income tax timing differences as compared to the second quarter of 2012.

On a year-to-date basis, the increase in income tax expense was primarily due to an increase in earnings before income taxes and lower income tax timing differences as compared to the same period in 2012.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at June 30, 2013 compared to December 31, 2012:

Balance Sheet Item	Increase ($ millions)	Explanation
Regulatory assets	**12.2**	The increase of $12.2 million was primarily due to the recognition of $3.6 million relating to the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under capital lease and an increase of $5.0 million in regulated deferred income tax liabilities, both of which have been offset by a regulatory asset of the same amount. The balance of the increase primarily relates to changes in other costs recoverable from customers.
Property, plant and equipment	**39.3**	The increase of $39.3 million was primarily due to approximately $38 million in property, plant and equipment acquired in the purchase of the City of Kelowna electrical utility business and capital expenditures of $30.6 million incurred during the period, less; • depreciation expense of $20.1 million, • contributions in aid of construction of $2.8 million received, and • other net adjustments primarily related to the Corporation's capital lease assets, the offsets of which have been recognized in regulatory assets.
Goodwill	**14.0**	The increase of approximately $14 million was due to the purchase of the City of Kelowna electrical utility business.
Current and long-term debt	**36.1**	The increase of $36.1 million was primarily due to draws on credit facilities used to fund the purchase of the City of Kelowna electrical utility business.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Six Months Ended June 30	**2013**	2012[1]	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**60.4**	35.7	24.7
Investing activities	**(84.9)**	(30.0)	(54.9)
Financing activities	**23.1**	(5.7)	28.8
Net decrease in cash and cash equivalents	**(1.4)**	-	(1.4)

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

Operating Activities

Cash provided by operating activities was $24.7 million higher compared to the same period in 2012. The increase was primarily due to changes in non-cash working capital, which was primarily due to the timing of property tax payments in early July 2013 whereas the property tax was paid late June of 2012.

Investing Activities

Cash used for investing activities was $54.9 million higher compared to the same period in 2012, primarily due to the purchase of the City of Kelowna electrical utility business in the first quarter of 2013.

Financing Activities

Cash provided by financing activities was $23.1 million, an increase of $28.8 million compared to the $5.7 million of cash used for financing activities during the same period in 2012. The variance was primarily due to draws on credit facilities during the first quarter of 2013 to fund the purchase of the City of Kelowna electrical utility business.

During the three and six months ended June 30, 2013, FortisBC paid dividends of $6.5 million (2012 - $4.5 million) and $13.0 million (2012 - $9.0 million) respectively to its parent company, FortisBC Pacific Holdings Inc. ("FortisBC Pacific").

Contractual Obligations

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

As at June 30, 2013	Total	Due Within 1 Year	Due in year 2	Due in year 3	Due in year 4	Due in year 5	Due after 5 years
($ millions)							
Power purchases (a)	2,931.0	8.6	16.2	49.4	51.1	50.4	2,755.3
Capital lease obligations (b)	2,435.0	40.3	41.0	41.7	42.5	43.3	2,226.2
Interest on long-term debt	748.5	37.2	33.4	29.5	27.4	27.4	593.6
Debt retirement	697.0	4.1	140.0	92.9	-	-	460.0
Finance obligation	13.9	1.3	1.3	1.3	1.3	1.3	7.4
Defined benefit pension funding contributions	3.3	3.3	-	-	-	-	-
Other	7.4	2.1	0.9	0.4	0.4	0.3	3.3
Totals	6,836.1	96.9	232.8	215.2	122.7	122.7	6,045.8

(a) Power purchase obligations of FortisBC include the BC Hydro Power Purchase Agreement, which expires on September 20, 2013, the Powerex Capacity Agreement, the Waneta Expansion Capacity Agreement, and the Brilliant Expansion Capacity and Energy Purchase Agreement.

(b) Capital lease obligations include principal payments, imputed interest and executory costs related to the BPPA and Brilliant Terminal Station ("BTS") capital lease obligations.

The New BC Hydro Power Purchase Agreement ("New PPA"), which FortisBC entered into on May 21, 2013, has not been included in contractual obligations as it is still subject to BCUC approval. An executed version of the New PPA was submitted by BC Hydro to the BCUC on May 24, 2013. FortisBC entered into the agreement to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20 year term beginning October 1, 2013. The New PPA does not change the basic parameters of the BC Hydro Power Purchase Agreement that expires on September 30, 2013. The power purchases from the New PPA are expected to be recovered in customer rates.

Capital Structure

FortisBC's business requires the Corporation to have ongoing access to capital to allow it to build and maintain the electrical systems in its service territory. The Corporation maintains a capital structure in line with the deemed capital structure approved by the BCUC at 40 per cent equity and 60 per cent debt. As part of phase 2 of the GCOC Proceeding the capital structure of the Corporation will be reviewed.

Credit Ratings

In June 2013, Moody's Investors Service affirmed the long-term rating for FortisBC of Baa1, but changed its rating outlook from stable to negative. There have been no other changes to the Corporation's credit ratings from those reported in the Corporation's 2012 annual MD&A.

Projected Capital Expenditures

FortisBC has estimated 2013 capital expenditures, before contributions in aid of construction, of approximately $110 million, which excludes the acquisition of the City of Kelowna electrical utility business of

approximately $38 million. The timing of incurring 2013 capital expenditures could potentially be affected by the collective agreement developments discussed under the "Business Outlook" section of this MD&A.

Cash Flow Requirements

FortisBC's primary sources of liquidity and capital resources include funds generated from operations, issuances of long-term debt, bank financing and operating lines of credit, and equity contributions from its ultimate parent Fortis. FortisBC expects to meet interest payments on outstanding indebtedness from internally generated funds, but may have to rely upon the proceeds of new financings to meet its principal debt obligations when due. The Corporation's working capital requirements fluctuate seasonally based on electricity consumption. Given the regulated nature of its business, the Corporation is able to maintain negative working capital balances. The Corporation maintains adequate committed credit facilities and on an annual basis, generates sufficient cash flow to meet its working capital requirements.

Credit Facilities and Debentures

FortisBC has authorized bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. On April 17, 2013, the Corporation extended its operating credit facility on substantially similar terms to the operating credit facility it replaced. The operating credit facility is comprised of a $100 million three-year revolving facility maturing in May 2016 ("Facility A") and a $50 million, 364-day revolving facility maturing in May 2014 ("Facility B"). As of June 30, 2013, $88.4 million was available against the combined operating credit and demand overdraft facilities (December 31, 2012 - $125 million) and $nil (December 31, 2012 - $nil) was used to support outstanding letters of credit.

Borrowings under the Corporation's operating credit facilities bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin. The margin applied is based on FortisBC's debt ratings provided by its credit rating agencies. Borrowings under the overdraft facility bear interest at prime.

On July 18, 2013, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture ("MTN Debentures") Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. Upon filing the shelf prospectus, the Corporation may from time to time during the 25 month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to $300.0 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2013, the Corporation had no material off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

(a) The Corporation received $0.2 million (2012 - $0.1 million) for the three months ended June 30, 2013 and $0.4 million (2012 - $0.2 million) for the six months ended June 30, 2013 from FortisBC Holdings Inc. ("FHI"), a related company under common control, for corporate management services. The amounts were included in operating costs on the consolidated statements of earnings.

(b) The Corporation received $0.1 million (2012 - $0.1 million) for the three months ended June 30, 2013 and $0.2 million (2012 - $0.3 million) for the six months ended June 30, 2013 for electricity sold to FEI. The amounts were included in electricity revenue on the consolidated statements of earnings.

(c) The Corporation received $0.7 million (2012 - $0.4 million) for the three months ended June 30, 2013 and $1.4 million (2012 - $0.7 million) for the six months ended June 30, 2013 from FEI for management services. The amounts were included in operating costs on the consolidated statements of earnings.

(d) The Corporation charged its parent, FortisBC Pacific, for labour and materials totalling $1.2 million (2012 - $2.5 million) for the three months ended June 30, 2013 and $3.7 million (2012 - $4.9

million) for the six months ended June 30, 2013. The amounts were included in other revenue and in operating costs on the consolidated statements of earnings.

(e) The Corporation was charged $1.0 million (2012 - $0.6 million) for the three months ended June 30, 2013 and $1.6 million (2012 - $1.1 million) for the six months ended June 30, 2013 by Fortis for the fair value of stock-based compensation granted by Fortis and for corporate management services provided. These amounts were included in operating costs on the consolidated statements of earnings.

(f) The Corporation was charged $0.2 million (2012 - $0.1 million) for the three months ended June 30, 2013 and $0.2 million (2012 - $0.4 million) for the six months ended June 30, 2013 by FHI for labour charges and board of director costs. These amounts were included in operating costs on the consolidated statements of earnings.

(g) The Corporation was charged $0.8 million (2012 - $0.5 million) for the three months ended June 30, 2013 and $1.0 million (2012 - $0.9 million) for the six months ended June 30, 2013 by FEI for office rent, labour charges, and purchases of natural gas. These amounts were included in operating costs on the consolidated statements of earnings.

(h) As a result of the transactions noted above, amounts due from the Corporation's related parties as at June 30, 2013 were $0.1 million from FHI (December 31, 2012 - $0.1 million), $0.6 million from FEI (December 31, 2012 - $0.4 million), and $0.3 million from FortisBC Pacific (December 31, 2012 - $0.3 million). In addition, an amount of $0.1 million (December 31, 2012 - $0.1 million) was due from David Bennett, Vice President, Operations Support, General Counsel and Corporate Secretary, who is an officer of the Corporation, representing a stock option exercise loan that is secured by the share certificates held by the officer. The loan bears interest equal to the amount of dividends received on the shares and is due within 10 years of the grant date or within one year following cessation of employment, whichever occurs first.

(i) As a result of the transactions noted above, amounts due to the Corporation's related parties as at June 30, 2013 were $0.1 million to Fortis (December 31, 2012 - $nil), $0.2 million to FHI (December 31, 2012 - $0.2 million), and $0.1 million to FEI (December 31, 2012 - $0.3 million).

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's 2012 annual MD&A, including the following risk:

The Corporation has a power supply sale agreement with BC Hydro for the sale of electricity generated from its non-regulated hydroelectric power plant. Subject to notice of termination by BC Hydro, this agreement could expire. Accordingly, the Corporation is exposed to the risk that it will not be able to sell the power from this plant in 2014 and beyond on similar terms.

CHANGES IN ACCOUNTING POLICIES

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

Disclosures About Offsetting Assets and Liabilities

The Corporation adopted the amendments to Accounting Standards Codification ("ASC") Topic 210, *Balance Sheet - Disclosures About Offsetting Assets and Liabilities* as outlined in Accounting Standards Update ("ASU") Nos. 2011-11 and 2013-01. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and International Financial Reporting Standards. ASU No. 2013-01 limits the scope of the new offsetting disclosure requirements previously issued in ASU No. 2011-11, to certain derivative instruments, repurchase and reverse repurchase agreements, and securities borrowing and lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting or similar arrangement. The above-noted amendments were applied retrospectively and did not materially impact the Corporation's interim consolidated financial statements for the three and six months ended June 30, 2013 and 2012.

FINANCIAL INSTRUMENTS

Fair Value Estimates

The following table summarizes the fair value measurements of the Corporation's long-term debt as of June 30, 2013 and December 31, 2012, which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheet at its carrying value:

	June 30, 2013		December 31, 2012	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
($ millions)				
Long-term debt, including current portion[1,2]	**625.4**	**736.7**	625.9	785.7

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates year-to-date 2013 from those disclosed in the Corporation's 2012 annual MD&A.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2011 through June 30, 2013. The information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with US GAAP. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Electricity Revenue**	**Net Earnings**
($ millions)		
June 30, 2013	66.8	8.0
March 31, 2013	83.9	17.3
December 31, 2012	75.0	11.8
September 30, 2012	66.5	12.9
June 30, 2012	61.6	9.2
March 31, 2012	81.9	15.1
December 31, 2011	75.6	10.5
September 30, 2011	63.9	9.5

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

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

September 2011/2012 - The increase in electricity revenue was primarily due to a 1.5 per cent rate increase effective January 1, 2012. The increase in earnings was primarily due to a 1.5 per cent rate increase effective January 1, 2012, partially offset by a flow-through back to customers for the refundable portion of the over collection of 2012 revenue requirements, as well as an increase in pole attachment revenue and a decrease in interest expense as compared to the forecasted amounts used to set rates.

December 2011/2012 - The decrease in electricity revenue was primarily due to lower electricity sales, partially offset by a 1.5 per cent rate increase effective January 1, 2012. The increase in earnings was primarily due to a 1.5 per cent rate increase effective January 1, 2012 partially offset by a flow-through back to customers for the refundable portion of the over collection of 2012 revenue requirements, an increase in pole attachment revenue, a decrease in interest expense as compared to the forecasted amounts used to set rates and the actual 2011 fourth quarter negative variances from the forecast used to set rates in 2011 that were shared equally between customers and FortisBC.

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

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

BUSINESS OUTLOOK

Collective Agreements

The organized employees of the Corporation are represented by the IBEW, Local 213, and COPE, Local 378.

The four year collective agreement between the Corporation and the IBEW expired on January 31, 2013. IBEW represents employees in specified occupations in the areas of generation and transmission and distribution. The parties have been negotiating since January, 2013. The IBEW served the Company 72 hours strike notice on March 13, 2013. The Company filed for Essential Services Order ("ESO") which was issued by the Labour Relations Board of BC on April 24, 2013. The ESO outlines those services that are necessary to prevent immediate and serious danger to the health, safety or welfare of the citizens of BC. The IBEW commenced partial job action on May 16, 2013. On June 26, 2013, the Company activated the ESO to provide certainty and stability in the delivery of electricity service. The Corporation is committed to reaching a fair and reasonable agreement that balances the needs of its employees and customers. Approximately 200 of FortisBC's employees are members of the IBEW.

There are two collective agreements between the Corporation and COPE. The first COPE collective agreement representing employees in specified occupations in the areas of administration and operations support expires on December 31, 2013. The second COPE collective agreement representing customer service employees expires on March 31, 2014.

Contingencies

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

The Province of BC filed a claim in the BC Supreme Court on June 8, 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure

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

SUBSEQUENT EVENT

FortisBC owns and operates the Corra Linn hydroelectric plant which is located on the Kootenay River in southern British Columbia. On July 13, 2013, there was an electrical fire involving one of the three operating units at the Corra Linn plant which was taken out of operation. FortisBC has contacted its insurers and is currently investigating the cause of the fire. The amount of damages cannot be reasonably determined at this time.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, FortisBC has issued and outstanding 2,018,510 common shares, all of which are owned by Fortis through its indirect wholly owned subsidiary, FortisBC Pacific.

ADDITIONAL INFORMATION

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

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