FortisBC Energy Inc.
Management Discussion & Analysis
For the Three Months Ended March 31, 2015
Dated May 5, 2015

The following FortisBC Energy Inc. ("FEI" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. Financial information for 2015 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and is presented in Canadian dollars unless otherwise specified. The MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and notes thereto for the three months ended March 31, 2015, with 2014 comparatives, prepared in accordance with US GAAP and the Corporation's annual audited consolidated financial statements and notes thereto together with the MD&A for the year ended December 31, 2014 with 2013 comparatives, prepared in accordance with US GAAP.

In this MD&A, FEVI refers to FortisBC Energy (Vancouver Island) Inc., FEW refers to FortisBC Energy (Whistler) Inc., TGHI refers to Terasen Gas Holdings Inc., FAES refers to FortisBC Alternative Energy Services Inc., FHI refers to the Corporation's parent, FortisBC Holdings Inc., FBC refers to FortisBC Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

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 estimated costs for the Tilbury Liquefied Natural Gas ("LNG") Facility Expansion Project and associated in service date; expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI and debenture issuances; the Corporation's belief that changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; and the forecast average rate base for 2015.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2018 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; absence of cyber-security failure; no significant decline in interest rates; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit rating agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competitiveness and commodity price risk; counterparty credit risk; natural gas supply 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, 2014.

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 AMALGAMATION AND OVERVIEW

In February 2014, the British Columbia Utilities Commission ("BCUC") approved the amalgamation of FEI, FEVI, FEW and TGHI, subject to the consent of the Lieutenant Governor in Council. The BCUC approved the adoption of common rates for natural gas delivery to all customers except those in the Fort Nelson service area and approved the phase-in to common rates over a three year period. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and was effected on December 31, 2014.

The Corporation is the resulting corporation from the amalgamation on December 31, 2014 of FEI, FEVI, FEW and TGHI. Prior to the amalgamation FEI, FEVI, FEW and TGHI were under common control and therefore the amalgamation has been presented on a pooling-of-interest basis, as if the historical financial position and operating results of these corporations had always been amalgamated. Prior period financial and operating information has been restated to present the results of the amalgamated Corporation (unless otherwise specified).

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 970,000 residential, commercial and industrial and transportation customers in more than 125 communities. Major areas served by the Corporation are the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions of BC. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

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

REGULATION

Customer Rates and Quarterly Gas Cost Changes

Customer rates include both the delivery charge, and the commodity and midstream charges. The commodity cost of natural gas and midstream costs are passed through to customers without mark-up.

In addition to annual delivery rate changes, the Corporation reviews natural gas and propane commodity and midstream charges every three months with the BCUC in order to ensure the rates charged to customers are sufficient to cover the cost of purchasing natural gas and contracting for midstream resources such as third-party pipeline or storage capacity.

The table below shows the residential rate changes since January 1, 2014 for a typical Lower Mainland residential customer:

	2014					**2015**
	Jan 1	April 1	July 1	Oct 1	Nov 1	**Jan 1**
Effective rate per gigajoule	$9.69	$11.06	$11.06	$10.20	$10.22	**$10.16**
Percentage change in rate	3.5%	14.1%	-	(7.8%)	0.2%	**(0.6%)**

When comparing March 31, 2015 to March 31, 2014, an average bill for a Lower Mainland residential customer increased by approximately 4.8 per cent, primarily due to an increase in natural gas costs.

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

In June 2013, pre-amalgamation FEI filed its 2014 PBR Application with the BCUC. Pursuant to an Evidentiary Update filed in February 2014, the application assumed a forecast average rate base of approximately $2,778 million for 2014.

In September 2014, the BCUC issued its PBR Decision on FEI's 2014 PBR Application. As part of the PBR Decision the term of the PBR was extended to 2019. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 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 FEI maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between FEI and interested parties regarding its current performance and future activities.

The BCUC's PBR Decision resulted in a 2014 average rate base for pre-amalgamation FEI of approximately $2,765 million and a 2014 delivery rate increase of approximately 1.8 per cent.

In January 2015, amalgamated FEI filed for approval of its 2015 rates under the PBR Decision. This filing assumes a forecast average rate base of approximately $3,656 million (excluding the separately approved rate base of approximately $12 million for Fort Nelson) and requests approval of a customer delivery rate increase of approximately 2.0 per cent over 2014 rates as determined under the PBR Plan formula approach for operation and maintenance costs and capital costs. A decision on the final rate increase is expected in the second quarter of 2015.

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

A Generic Cost of Capital ("GCOC") Proceeding to establish the allowed ROE and capital structures for BC regulated utilities occurred from 2012 to 2014. FEI was designated as the benchmark utility and a BCUC decision established that the ROE for the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component of capital structure, both effective January 1, 2013. The benchmark utility ROE and common equity component of capital structure will remain in effect through December 31, 2015.

As a result of the second stage of the GCOC Proceeding decision which was received in March 2014, pre-amalgamation FEVI and FEW were approved for a common equity component of capital structure of 41.5 per cent and an ROE of 9.25 per cent and 9.5 per cent respectively, effective January 1, 2013. Effective January 1, 2015, the ROE and common equity component of capital structure for the amalgamated FEI was set to equal the benchmark utility, at 8.75 per cent and 38.5 per cent, respectively.

The BCUC decision on the first stage of the GCOC Proceeding, received in May 2013, directed FEI to file an application to review the 2016 benchmark utility ROE and common equity component of capital structure by no later than November 30, 2015.

CONSOLIDATED RESULTS OF OPERATIONS

Quarter Ended March 31	**2015**	2014	Variance
Gas sales (petajoules)	**62**	75	(13)
($ millions)			
Revenue	**491**	513	(22)
Expenses			
Cost of natural gas	**217**	251	(34)
Operation and maintenance	**55**	55	-
Depreciation and amortization	**49**	47	2
Property and other taxes	**15**	15	-
	336	368	(32)
Operating income	**155**	145	10
Finance charges	**34**	35	(1)
Earnings before income taxes	**121**	110	11
Income taxes	**34**	32	2
Net earnings	**87**	78	9

Gas Sales

For the three months ended March 31, 2015, gas sales volumes were lower compared to the corresponding period in 2014 primarily due to lower consumption by residential, commercial and transportation customers as a result of warmer weather.

Net Earnings

The Corporation reported net earnings of $87 million for the three months ended March 31, 2015, compared to net earnings of $78 million in the corresponding period of 2014.

Prior to 2015, the pre-amalgamation net earnings of FEVI were subject to the use of the Rate Stabilization Deferral Account ("RSDA") which accumulated the difference between revenues received and the actual cost of service, excluding operation and maintenance cost variances from forecast. Effective January 1, 2015, the use of the RSDA ceased and these net earnings are now subject to quarterly seasonal consumption differences which results in higher net earnings being recognized in the first and fourth quarters offset by lower net earnings in the second and third quarters. As a result of the discontinuance of the RSDA mechanism, net earnings in the first quarter of 2015 are higher by approximately $12 million.

Pre-amalgamation FEVI and FEW net earnings in 2014 were based on a deemed equity component of capital structure of 41.5 per cent and an allowed ROE of 9.25 per cent for FEVI and 9.5 per cent for FEW. Effective January 1, 2015, the deemed equity component of capital structure and ROE reverted to that of FEI at 38.5 per cent and 8.75 per cent, respectively. As a result of this change, net earnings for the three months ended March 31, 2015 were $1 million lower, compared to the corresponding period in 2014.

In the first quarter of 2014, the Corporation recognized the one time retroactive effect to January 1, 2013 of the second stage of the GCOC decision which resulted in an additional $1 million of net earnings in that quarter.

Revenue and Cost of Natural Gas

For the three months ended March 31, 2015, revenues decreased by $22 million, compared to the corresponding period in 2014.

Lower revenues for the three months ended March 31, 2015 are primarily due to lower gas sales and the Earnings Sharing Mechanism, partially offset by the effects of flow-through deferral amounts, specifically the discontinuance of the RSDA, a higher equity component of allowance for funds used during construction ("AFUDC") and higher natural gas costs.

For the three months ended March 31, 2015, cost of natural gas decreased by $34 million compared to the corresponding period in 2014 primarily due to lower gas sales, partially offset by higher costs for natural gas.

Operation and Maintenance Expense

For the three months ended March 31, 2015, operation and maintenance expense was comparable to the corresponding period in 2014 as lower labour costs were offset by a reduction in the allowed regulated rate of overhead capitalization as a result of the PBR Decision.

Depreciation and Amortization

For the three months ended March 31, 2015, depreciation and amortization expense increased by $2 million compared with the corresponding period in 2014. The increase was due to higher amortization of regulatory asset deferral accounts and higher depreciation expense due to the increase in the depreciable asset base of the Corporation.

Finance Charges

For the three months ended March 31, 2015, finance charges decreased by $1 million compared to the corresponding period in 2014 primarily as a result of lower interest on long-term debt and capital leases.

Income Taxes

For the three months ended March 31, 2015, income tax expense increased by $2 million compared to the corresponding period in 2014. The increase in income tax expense was primarily due to higher pre-tax earnings partially offset by higher deductible temporary differences.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at March 31, 2015 compared to December 31, 2014:

Balance Sheet Item	Increase (Decrease) ($ millions)	Explanation
Property, plant and equipment	**66**	The increase was primarily due to $111 million in capital expenditures incurred during the period partially offset by depreciation expense of $35 million and changes in non-cash capital accruals of $25 million. The increase was also due to a $13 million non-cash elimination of a contribution in aid of construction between FEVI and FEW.
Accounts payable and other current liabilities	**(76)**	The decrease was primarily due to a reduction in capital accruals related to the Tilbury Expansion Project and a decrease in gas costs payable due to a lower average unit cost and lower volumes purchased.
Inventories	**(63)**	The decrease was primarily due to the drawdown of natural gas in storage during the winter months.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Quarter Ended March 31	**2015**	2014	Variance
($ millions)			
Cash flows provided by (used for):			
Operating activities	**192**	128	64
Investing activities	**(115)**	(46)	(69)
Financing activities	**(85)**	(84)	(1)
Net decrease in cash and cash equivalents	**(8)**	(2)	(6)

Operating Activities

Cash flows provided by operating activities were $64 million higher for the three months ended March 31, 2015 compared to the corresponding period in 2014 primarily due to changes in working capital partially offset by changes in long-term regulatory assets and liabilities.

Investing Activities

Cash used for investing activities was $69 million higher for the three months ended March 31, 2015 compared to the corresponding period in 2014 primarily due to increased property, plant and equipment expenditures relating to the Tilbury Expansion Project.

Financing Activities

Cash used for financing activities was $1 million higher for the three months ended March 31, 2015 compared to the corresponding period in 2014. The increase was primarily due to an increase in dividends paid offset by lower net repayments of short-term notes and debt.

During the three months ended March 31, 2015, the Corporation paid a common share dividend of $60 million (2014 - $20 million) to its parent company, FHI. The dividend included a one-time dividend to reduce the common equity component of the pre-amalgamation FEVI and FEW regulated capital structure from 41.5 per cent to 38.5 per cent.

Contractual Obligations

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

As at March 31, 2015	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)							
Interest on long-term debt	2,137	121	107	96	96	96	1,621
Debt retirement[1]	1,905	85	200	-	-	-	1,620
Natural gas supply contract obligations	186	186	-	-	-	-	-
Capital lease and finance obligations	110	6	6	6	33	17	42
Defined benefit pension plan funding contributions	33	20	13	-	-	-	-
Operating leases	14	3	3	3	3	2	-
Government loan	5	-	5	-	-	-	-
Totals	4,390	421	334	105	132	115	3,283

[1] Included in debt retirement is $10 million of the FEVI government loan that was reclassed to current portion of long-term debt as it is due within 1 year.

The natural gas supply contract obligations are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at March 31, 2015.

Capital Structure

The Corporation's principal business of regulated natural gas transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The amalgamated Corporation effective January 1, 2015 will maintain a capital structure in line with the deemed regulatory capital structure approved by the BCUC at 38.5 per cent equity and 61.5 per cent debt. Prior to the amalgamation and effective for 2014 the capital structure was: FEI – 38.5 per cent equity and 61.5 per cent debt, FEVI and FEW – 41.5 per cent equity and 58.5 per cent debt.

Credit Ratings

There have been no changes to the Corporation's credit ratings from those reported in the Corporation's 2014 annual MD&A.

Projected Capital Expenditures

The projected capital expenditures for 2015 remain substantially unchanged from the description outlined in the Corporation's 2014 annual MD&A, other than noted below.

Tilbury Expansion Project Phase 1A

In October 2014, FEI began construction on the expansion of its Tilbury LNG Facility in Delta, BC. The Tilbury Expansion Project Phase 1A is estimated to cost approximately $440 million including AFUDC and will include a new LNG storage tank and liquefier, both expected to be in service by the end of 2016. During the first quarter of 2015, the LNG tank concrete foundation was completed and work commenced on the tank wall and bottom. The geotechnical and site work for the process area and substation is progressing on schedule.

Cash Flow Requirements

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

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

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

Credit Facilities and Debentures

Credit Facilities

As at March 31, 2015, the Corporation had $700 million in syndicated credit facilities available of which $352 million was unused. The $500 million credit facility matures in August 2016 and the $200 million credit facility matures in December 2015.

The following summary outlines the Corporation's credit facilities:

($ millions)	**March 31, 2015**	December 31, 2014
Total credit facilities	**700**	700
Short-term notes	**(298)**	(301)
Letters of credit outstanding	**(50)**	(50)
Credit facilities available	**352**	349

Debentures

On April 1, 2015, 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 $1 billion. The establishment of the MTN Debenture Program has been approved by the BCUC.

On April 8, 2015, FEI entered into an agreement with the dealers listed in the Dealers Agreement to sell $150 million of unsecured MTN Debentures Series 26. The MTN Debentures Series 26 will bear interest at a rate of 3.375 per cent to be paid semi-annually and mature on April 13, 2045. The closing of the issuance occurred on April 13, 2015, with net proceeds being used to repay existing short term note indebtedness.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2015, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $50 million (2014 - $50 million).

RELATED PARTY TRANSACTIONS

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

Related Party Recoveries

The amounts charged to the Corporation's related parties under common control for the three months ended March 31 were as follows:

($ millions)	**2015**	2014
Operation and maintenance expense charged to FBC (a)	**1**	1

(a) The Corporation charged FBC for office rent and management services.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control for the three months ended March 31 were as follows:

($ millions)	**2015**	2014
Operation and maintenance expense charged by FBC (a)	**1**	2
Operation and maintenance expense charged by FHI (b)	**3**	3
	4	5

(a) FBC charged the Corporation for electricity purchases and management services.

(b) FHI charged the Corporation for Board of Director costs, management services, labour and materials.

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 and current portion of long-term debt on the consolidated balance sheets, are as follows:

	March 31, 2015		December 31, 2014	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**-**	**1**	-	3
Debt due to FHI (a)	**-**	**-**	-	20
FBC	**-**	**1**	-	1
	-	**2**	-	24

(a) During 2014, FEW had a promissory note due to FHI bearing interest at 5.108 per cent. The note was repaid in January 2015.

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's 2014 annual MD&A.

FUTURE ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standard 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 completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. In April 2015, FASB issued an Exposure Draft of a proposed ASU that would delay by one year the effective date of the revenue recognition standard and allow early adoption as of the original effective date. FEI is in the process of identifying contracts with customers and performance obligations in the contracts and the effect this will have on its consolidated financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. FEI does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update will require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on FEI's consolidated balance sheet. As at March 31, 2015, debt issuance costs included in long-term other assets were approximately $13 million (December 31, 2014 - $12 million).

FINANCIAL INSTRUMENTS

Fair Value Estimates

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

	March 31, 2015		December 31, 2014	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion[1]	**1,905**	**2,568**	1,925	2,461
Natural gas supply contract premiums[2]	**11**	**11**	11	11

1 Includes unsecured debentures, purchase money mortgages, promissory notes and the current portion of the repayable government loans for which the carrying value is measured at cost and excludes short-term notes. For the purposes of this disclosure, carrying value is used to approximate fair value for the promissory note and the repayable government loans.

2 Included in accounts payable and other current liabilities as at March 31, 2015 and December 31, 2014.

The fair values of the Corporation's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment.

At March 31, 2015, the Corporation's outstanding derivative balances, which consisted of natural gas supply contract premiums were as follows:

($ millions)	**Gross Derivatives Balance[1]**	**Netting[2]**	**Cash Collateral**	**Total Derivatives Balance**
Natural gas supply contract premiums:				
Accounts payable and other current liabilities	**11**	**-**	**-**	**11**

1 See the March 31, 2015 unaudited interim consolidated financial statements for a discussion of the valuation techniques used to calculate the fair value of these instruments.

2 Positions, by counterparty, are netted where the intent and legal right to offset exists.

At December 31, 2014, the Corporation's outstanding derivative balances which consisted of natural gas supply contract premiums were as follows:

($ millions)	Gross Derivatives Balance[1]	Netting[2]	Cash Collateral	Total Derivatives Balance
Natural gas supply contract premiums:				
Accounts payable and other current liabilities	11	-	-	11

1 See the December 31, 2014 consolidated financial statements for a discussion of the valuation techniques used to calculate the fair value of these instruments.

2 Positions, by counterparty, are netted where the intent and legal right to offset exists.

The following table shows the cumulative unrealized losses at March 31, 2015 and December 31, 2014, with respect to all natural gas derivative contracts:

($ millions)	**March 31, 2015**	December 31, 2014
Unrealized loss on natural gas supply contract premiums[1,2]	**11**	11

[1] Unrealized gains and losses on commodity risk-related derivative instruments are recorded to current regulatory assets or liabilities rather than being recorded to the consolidated statement of earnings.

[2] These amounts are fully passed through to customers in rates. Accordingly, net earnings were not impacted by realized amounts on these instruments.

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 2015 from those disclosed in the Corporation's 2014 annual MD&A.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2013 through March 31, 2015. 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	**Revenue**	**Net Earnings (Loss)**
($ millions)		
March 31, 2015	491	87
December 31, 2014	452	57
September 30, 2014	237	(6)
June 30, 2014	287	12
March 31, 2014	513	78
December 31, 2013	475	56
September 30, 2013	214	(11)
June 30, 2013	246	6

Due to the seasonal nature of the Corporation's natural gas transmission and distribution operations and its impact on, natural gas consumption patterns, the natural gas transmission and distribution operations of FEI normally generate higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

June 2014/2013 - Net earnings were higher primarily due to the retroactive negative impact of the GCOC stage one decision reflected in the second quarter of 2013 relating to the first quarter of 2013.

September 2014/2013 - The lower net loss was primarily due to the higher tax savings from the Tax Loss Utilization Plan ("TLUP") in 2014. The TLUP in 2014 was put in place in the second quarter whereas the TLUP in 2013 was put in place in the third quarter.

December 2014/2013 – Net earnings were higher primarily due to operation and maintenance expense savings, net of the regulated Earnings Sharing Mechanism and higher AFUDC partially offset by the effects of the flow-through deferral amounts and lower tax savings from the TLUP in 2014. The TLUP in 2014 was wound-up in November 2014 whereas the TLUP in 2013 was wound-up in December 2013.

March 2015/2014 - Net earnings were higher primarily due to the discontinuance of the FEVI RSDA mechanism partially offset by a lower amalgamated ROE and deemed equity component of capital structure and the retroactive effect to January 1, 2013 of the GCOC decision stage two decision reflected in the first quarter of 2014.

BUSINESS OUTLOOK

Collective Agreements

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expires on March 31, 2019. IBEW represents employees in specified occupations in the areas of transmission and distribution.

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE"). The first collective agreement representing customer service employees expires on March 31, 2017.

The second collective agreement representing employees in specified occupations in the areas of administration and operations support expired March 31, 2015. Negotiations for a renewed collective agreement commenced in February 2015. The Corporation and COPE had agreed to mediation at the Labour Relations Board which was scheduled for April 2015. COPE left mediation and no future dates have been scheduled for bargaining or mediation. In late April 2015, the Corporation and COPE met with the Labour Relations Board to mediate essential services levels and on the same day COPE issued 72 hour strike notice.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 313,438,012 common shares, all of which are owned by FHI, a directly wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

For further information, please contact:

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