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

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 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.

In this MD&A, FEVI refers to FortisBC Energy (Vancouver Island) Inc., FEW refers to FortisBC Energy (Whistler) 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 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 credit lines, debt issues, equity contributions and internally generated funds; the Corporation's expectations for employee future benefit costs; 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 2014.

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 benefits costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit ratings 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); 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 risk; First Nations risk; 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; 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, 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

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 842,000 residential, commercial and industrial customers in more than 100 communities. Major areas served by the Corporation are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential and commercial 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 distribution utility holding corporation having investments in distribution, transmission and generation utilities, as well as commercial real estate and hotel operations.

REGULATION

Customer Rates, Quarterly Gas Cost Changes and Regulatory Applications

Customer rates include both the delivery charge, and the commodity and midstream charges. The commodity cost of natural gas and midstream costs are flowed 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 British Columbia Utilities Commission ("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.

Overall, residential rates increased in the second quarter of 2013 as compared to the second quarter of 2012. The table below shows the rate changes since January 1, 2012 for a typical Lower Mainland residential customer:

	2012					**2013**	
	Jan 1	April 1	June 1	July 1	Oct 1	**Jan 1**	**April 1**
Effective rate per gigajoule	$10.39	$9.36	$9.21	$9.21	$9.21	**$9.36**	**$9.36**
Percentage change in rate	3.3%	(9.9%)	(1.6%)	-	-	**1.6%**	**-**

When comparing June 30, 2013 to June 30, 2012, an average bill for a FEI residential customer increased by approximately 1.6 per cent, as increases in delivery rates more than offset decreases in the cost of natural gas.

In February 2012, the BCUC approved a general tariff for the Corporation to provide compressed natural gas ("CNG") and liquefied natural gas ("LNG") refueling services for transportation vehicles. The Corporation has received either permanent or interim rate approval for three refueling projects. In addition, the Corporation has received BCUC approval for rate treatment of expenditures under the Greenhouse Gas Reductions (Clean Energy) Regulation ("GGRR") under the *Clean Energy Act* ("CEA") that was promulgated in May 2012. In May 2013, FEI filed an application for approval of its first fueling station under the GGRR and a decision on the rate to be charged to customers is expected in the third quarter of 2013.

The Corporation received a decision on changing its LNG sales and dispensing service rate schedule from a pilot program to a permanent program in June 2013. The decision did not approve the program as permanent, but extended the pilot program until the end of 2020, and set out the rate to be charged.

In August 2011, the Corporation received a decision from the BCUC on the use of Energy Efficiency and Conservation ("EEC") funds as incentives for Natural Gas Vehicles ("NGV"). FEI had made these funds available to assist large customers to purchase NGV in lieu of vehicles fueled by diesel. The decision determined that it was not appropriate to use EEC funds for this purpose and the BCUC requested that FEI provide further submissions to determine the prudency of the EEC incentives at a future time. An application was filed with the BCUC to review the prudency of the EEC incentives and a decision was received on April 30, 2013 in which the BCUC determined the EEC incentives for NGV were prudently incurred and can be recovered from natural gas ratepayers, as part of the incentive program funding under the GGRR.

In June 2013, the Corporation 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 $2,789 million for 2014. This application requests approval of a delivery rate increase for 2014 of approximately 1.0 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.

In April 2012, the Corporation, together with FEVI and FEW, applied to the BCUC for the necessary approvals to amalgamate and implement postage stamp rates across the service territories served by the amalgamated entity for 2014. The evidentiary portion of the proceeding was closed in October 2012 and a decision was received in February 2013. In its decision, the BCUC denied the request to implement postage stamp rates. On March 27, 2013, the Corporation filed a Notice of Application for Leave to Appeal the decision with the BC Court of Appeal, and on April 26, 2013, the Corporation filed an Application for Reconsideration with the BCUC. In June 2013, the BCUC determined that the reconsideration application will be heard and has set out a regulatory timetable for filing of evidence.

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

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

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for the Corporation and all other regulated entities in BC that rely on the benchmark utility, which was determined to be FEI, 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 Corporation. 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.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year to date		
Periods Ended June 30	**2013**	2012	Variance	**2013**	2012	Variance
($ millions)						
Revenue	**200**	223	(23)	**629**	708	(79)
Operating expenses						
Cost of natural gas	**79**	101	(22)	**285**	374	(89)
Operation and maintenance	**43**	42	1	**92**	91	1
Depreciation and amortization	**36**	32	4	**73**	64	9
Property and other taxes	**13**	13	-	**26**	25	1
	171	188	(17)	**476**	554	(78)
Operating income	**29**	35	(6)	**153**	154	(1)
Finance charges	**29**	29	-	**58**	59	(1)
Earnings before income taxes	**-**	6	(6)	**95**	95	-
Income taxes	**1**	2	(1)	**21**	19	2
Net (loss) earnings	**(1)**	4	(5)	**74**	76	(2)

	Quarter			Year to date		
Periods Ended June 30	**2013**	2012	Variance	**2013**	2012	Variance
Gas sales (Petajoules (PJs))	**32**	36	(4)	**97**	101	(4)

For the three and six months ended June 30, 2013, gas sales volumes were lower compared to the corresponding periods in 2012 due to lower consumption by residential, commercial and transportation customers as a result of warmer weather.

Net Earnings

As a result of the BCUC's decision on phase one of the GCOC Proceeding received in May of 2013, the allowed ROE for 2013 for the Corporation decreased to 8.75 per cent effective January 1, 2013 from 9.5 per cent in 2012. The deemed equity component for the Corporation decreased to 38.5 per cent effective January 1, 2013 from 40.0 per cent in 2012. The decision decreased net earnings for the three and six months ended June 30, 2013 by approximately $6 million.

The Corporation reported a loss of $1 million for the three months ended June 30, 2013 and earnings of $74 million for the six months ended June 30, 2013 compared to earnings of $4 million and $76 million, respectively, in the corresponding periods of 2012.

For the three months ended June 30, 2013, earnings were lower primarily due to the retroactive impact of a lower allowed ROE in 2013 compared to 2012, the retroactive impact of the decrease in the equity component of the capital structure, a decrease in margin from industrial customers and lower margin associated with lower than forecast customer additions partially offset by higher rate base and lower income taxes.

For the six months ended June 30, 2013, earnings were lower primarily due to a lower allowed ROE in 2013 compared to 2012, a decrease in the equity component of the capital structure, lower margin associated with lower than forecast customer additions and higher income taxes partially offset by higher rate base.

Revenue and Cost of Natural Gas

For the three and six months ended June 30, 2013, revenues decreased by $23 million and $79 million, respectively, compared to the corresponding periods in 2012. For the three and six months ended June 30, 2013, cost of natural gas decreased by $22 million and $89 million, respectively, compared to the corresponding periods in 2012. Lower revenues is primarily due to the decrease in the allowed ROE and deemed equity component for 2013 compared to 2012 as discussed above. Also, lower revenues and cost of natural gas for the three and six months reflect lower gas sales due to warmer weather and lower commodity costs compared to the same periods in 2012.

Margin for the three months ended June 30, 2013 was comparable to the same period in 2012 as a result of higher rate base being offset by a decrease in margin from industrial customers, lower margin associated with lower than forecast customer additions and the retroactive impact of a lower allowed ROE and deemed equity component in 2013 compared to 2012.

Margin for the six months ended June 30, 2013 was higher compared to the same period in 2012 due to higher rate base as compared to 2012 partially offset by lower margin associated with lower than forecast customer additions and a lower allowed ROE and deemed equity component in 2013 compared to 2012.

Changes in consumption levels of sales customers and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts.

Operation and Maintenance Expense

For the three and six months ended June 30, 2013, operation and maintenance expense increased by $1 million in both periods compared to the corresponding periods in 2012. The increase in operation and maintenance expense was mainly due to higher contracting costs and higher information technology support costs.

Depreciation and Amortization

As part of the 2012/2013 Revenue Requirements Application ("2012/2013 RRA") decision, the BCUC ordered the Corporation to capture differences between actual depreciation and forecast depreciation in a deferral account.

For the three and six months ended June 30, 2013, depreciation and amortization expense increased by $4 million and $9 million, respectively, as compared with the corresponding periods in 2012. The increase was primarily due to higher amortization of regulatory deferral accounts in 2013 compared to the corresponding periods in 2012 and higher depreciation expense due to forecast depreciation being higher in 2013 compared to the same periods in 2012.

Finance Charges

For the three months ended June 30, 2013 finance charges were comparable to the corresponding period in 2012. For the six months ended June 30, 2013, finance charges decreased by $1 million compared with the corresponding period in 2012. The decrease was primarily a result of a higher debt component of allowance for funds used during construction in 2013 compared to 2012 and lower short term borrowings in 2013 compared to the same period in 2012.

Income Taxes

For the three months ended June 30, 2013, income tax expense decreased by $1 million, while for the six months ended June 30, 2013 income tax expense increased by $2 million, respectively, compared to the corresponding periods in 2012. The decrease in income tax expense for the three months was mainly due to lower pre-tax earnings. The increase in income tax expense for the six months was mainly due to higher taxable permanent differences.

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 (Decrease)** ($ millions)	**Explanation**
Accounts receivable	(64)	The decrease was mainly due to a decrease in trade accounts receivable and unbilled receivables due to seasonality, partially offset by an increase in the buildup of the equal payment plan.
Short-term notes	(33)	The decrease was due to a decline in the borrowings due to seasonality of sales.
Accounts payable and accrued liabilities	(33)	The decrease was mainly due to a decrease in the mark to market of the Corporation's natural gas derivatives and a decrease in trade payables.
Income and other taxes payable	21	The increase was primarily due to current tax expense for the period and an increase in other taxes including GST, franchise taxes and property taxes.
Regulatory assets	22	The increase is primarily due to the increase in the regulated asset for deferred income taxes, increase in actual pension costs in excess of approved amount, increase in deferred losses on disposal of utility capital assets and increase in costs related to the energy efficiency and conservation program.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Six Months Ended June 30	**2013**	2012	Variance
($ millions)			
Cash flows provided by (used for):			
Operating activities	**200**	243	(43)
Investing activities	**(67)**	(62)	(5)
Financing activities	**(120)**	(52)	(68)
Net increase in cash and cash equivalents	**13**	129	(116)

Operating Activities

Cash flow provided by operating activities for the six months ended June 30, 2013, which included the impact of changes in non-cash working capital, was $200 million compared to $243 million in the corresponding period of 2012. The decrease in cash provided by operating activities was primarily due to lower changes in non-cash working capital partially offset by changes in long-term regulatory assets and liabilities and higher depreciation and amortization.

Investing Activities

Cash used for investing activities for the six months ended June 30, 2013, was $67 million, an increase of $5 million compared to $62 million used in the same period in 2012. The increase was primarily due to higher investment in property, plant and equipment partially offset by a decrease in intangible asset expenditures.

Financing Activities

Cash used for financing activities for the six months ended June 30, 2013 was $120 million, an increase of $68 million compared to the $52 million used in the corresponding period of 2012. The increase in cash used was primarily due to an increase in dividends paid in the first half of 2013 compared to the comparable period in 2012 and in the second quarter of 2012 there were proceeds from the issuance of common shares, with no comparable equity issuance in 2013. The increase is partially offset by a decrease in short term note repayments.

During the first half of 2013, the Corporation paid common share dividends of $84 million (2012 - $50 million) to its parent companies.

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)							
Interest on long-term debt	1,843	105	105	101	86	76	1,370
Debt retirement and capital lease and finance obligations	1,665	7	6	81	207	7	1,357
Operating leases	17	3	3	3	2	2	4
Gas purchase obligations	234	185	40	9	-	-	-
Employee defined benefit pension plans	6	6	-	-	-	-	-
Totals	3,765	306	154	194	295	85	2,731

Gas purchase contract commitments are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at June 30, 2013.

Capital Structure

The Corporation's principal business of regulated gas transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed capital structure approved by the BCUC at 38.5 per cent equity and 61.5 per cent debt (2012 – 40 per cent equity and 60 per cent debt).

Credit Ratings

In June 2013, Moody's Investors Service affirmed the long-term credit rating of the Corporation of A3 but changed the 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

The projected capital expenditures estimates remain substantially unchanged from the description outlined in the Corporation's 2012 annual MD&A.

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 and on an annual basis, generates sufficient cash flow to meet its working capital requirements.

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 long-term debt issues.

The Corporation's ability to service its debt obligations and pay dividends on its common shares is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of debt and payment of dividends.

Credit Facilities

As at June 30, 2013, the Corporation had a $500 million syndicated credit facility available of which $450 million was unused. On July 5, 2013, the Corporation extended its credit facility to mature on August 24, 2015. The new agreement has substantially similar terms to the facility it replaced.

The following summary outlines the Corporation's credit facility:

($ millions)	**June 30, 2013**	December 31, 2012
Total credit facility	**500**	500
Short-term notes	**-**	(33)
Letters of credit outstanding	**(50)**	(51)
Credit facility available	**450**	416

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2013, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $50 million (2012 - $51 million).

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent and other related companies under common control to provide or receive services and materials based upon 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 $1 million (2012 – $1 million) and $2 million (2012 - $2 million), respectively, for the three and six months ended June 30, 2013, from FEVI, a subsidiary of FHI, for transporting gas through the Corporation's pipeline system. This revenue was included in natural gas transmission and distribution revenues on the consolidated statements of earnings.

(b) The Corporation reimbursed its parent, FHI, for labour and materials totaling $3 million (2012 – $3 million) for the three months ended June 30, 2013 and $6 million (2012 - $6 million) for the six months ended June 30, 2013. The amounts were included in operation and maintenance expenses on the consolidated statements of earnings.

(c) The Corporation charged $3 million (2012 – $3 million) to affiliated companies for labour and materials during the three months ended June 30, 2013 and $6 million (2012 - $6 million) for the six months ended June 30, 2013. The amounts were included in operation and maintenance expenses on the consolidated statements of earnings.

(d) The Corporation was charged $4 million (2012 - $4 million) and $8 million (2012 - $8 million), respectively, for the three and six months ended June 30, 2013 by FEVI for storing gas at the Mt. Hayes LNG storage facility. These charges were included in regulatory liabilities on the consolidated balance sheets.

(e) For the three and six months ended June 30, 2013, the Corporation was charged $1 million (2012 - nil) and $2 million (2012 - $1 million), respectively, by FBC (an indirect subsidiary of Fortis) for electricity purchases and management services. For the three and six months ended June 30, 2013, the Corporation charged $1 million (2012 - $1 million) and $1 million (2012 - $1 million), respectively, to FBC for natural gas purchases, rent and management services. These charges were included in operation and maintenance expenses on the consolidated statements of earnings.

(f) As a result of the transactions noted above, included in accounts receivable are amounts due from the Corporation's related parties as at June 30, 2013, of $4 million (December 31, 2012 - $2 million) from FEVI and $1 million (December 31, 2012 - $1 million) from FEW. The amounts are unsecured and non-interest bearing.

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's 2012 annual MD&A.

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 and natural gas derivative contracts as of June 30, 2013 and December 31, 2012, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value:

	June 30, 2013		December 31, 2012	
($ millions)	**Carrying value**	**Estimated fair value**	Carrying value	Estimated fair value
Long-term debt	**1,545**	**1,905**	1,545	2,039
Natural gas commodity swaps and options and gas purchase contract premium[1]	**11**	**11**	26	26

[1] Included in accounts payable as at June 30, 2013 and December 31, 2012.

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 June 30, 2013, the Corporation's outstanding derivative balances were as follows:

($ millions)	**Gross derivatives balance[1]**	**Netting[2]**	**Cash collateral**	**Total derivatives balance**
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	**11**	**-**	**-**	**11**

[1] See the June 30, 2013 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, 2012, the Corporation's outstanding derivative balances were as follows:

($ millions)	Gross derivatives balance[1]	Netting[2]	Cash collateral	Total derivatives balance
Natural gas commodity derivatives:				
Accounts payable and accrued liabilities	26	-	-	26

[1] See the December 31, 2012 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 June 30, 2013 and December 31, 2012, with respect to the derivative instruments:

($ millions)	**June 30, 2013**	December 31, 2012
Unrealized loss on natural gas commodity derivatives – Current portion of regulatory assets[1,2]	**11**	26

[1] Unrealized gains and losses on commodity risk-related derivative instruments are recorded to 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 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	**Revenue**	**Net (Loss) Earnings**
($ millions)		
June 30, 2013	200	(1)
March 31, 2013	429	75
December 31, 2012	388	46
September 30, 2012	170	(10)
June 30, 2012	223	4
March 31, 2012	485	72
December 31, 2011	438	47
September 30, 2011	170	(8)

Due to natural gas consumption patterns, the Corporation normally generates higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are offset partially by net losses in the third quarter. As a result, interim earnings statements are not indicative of earnings on an annual basis.

September 2012/2011 - The higher loss is primarily due to the curving of revenue versus the incurrence of the related expenses which is more pronounced in the third quarter of 2012 versus the same period in 2011. Also contributing to the higher loss was lower capitalized allowance for funds used during construction compared to the same period in 2011 and lower margin as a result of lower than forecast customer additions partially offset by higher margin from industrial customers, higher contribution from the current year tax loss utilization plan and the timing of incurring operation and maintenance expenditures.

December 2012/2011 – Earnings were lower primarily due to lower margin associated with lower than forecast customer additions in 2012, lower capitalized allowance for funds used during construction compared to the same period in 2011 and timing of operations and maintenance expenditures partially offset by increased rate base, higher margin from industrial customers and higher contribution from the current year tax loss utilization plan.

March 2013/2012 - Earnings have increased quarter over quarter primarily due to higher rate base and higher margin from industrial customers partially offset by lower margin associated with lower than forecast customer additions and higher income taxes.

June 2013/2012 - Earnings were lower primarily due to the retroactive impact of a lower allowed ROE in 2013 compared to 2012, the retroactive impact of the decrease in the equity component of the capital structure, a decrease in margin from industrial customers and lower margin associated with lower than forecast customer additions partially offset by higher rate base and lower income taxes.

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, 2015. IBEW represents employees in specified occupations in the areas of transmission and distribution.

The collective agreement between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE") expires on March 31, 2015. COPE represents employees in specified occupations in the areas of administration and operations support.

The collective agreement between the Corporation's customer service employees and Local 378 of the COPE expires on March 31, 2014.

Contingencies

The Corporation is subject to various legal proceedings and claims associated with the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's consolidated financial position or results of operations.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A the Corporation had issued and outstanding 64,910,782 common shares.

The Corporation is an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

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