

FortisBC Energy Inc.
Management Discussion & Analysis
For the Three and Six Months Ended June 30, 2015
Dated July 31, 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 and six months ended June 30, 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., TGHl 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 Facility Expansion Project ("Tilbury 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 of sales customers and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; and the Corporation's estimated contractual obligations.

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 968,000 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. Fortis is a leader in the North American electric and gas utility business, serving customers across Canada, the United States and the Caribbean.

REGULATION

Customer Rates and Quarterly Gas Cost Changes

Customer rates include both the delivery charge and the cost of natural gas. The cost of natural gas, consisting of the commodity and storage and transport costs, is passed through to customers without mark-up.

In addition to annual delivery rate changes, the Corporation reviews natural gas and propane 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 third-party pipeline and 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	April 1
Effective rate per gigajoule	\$9.69	\$11.06	\$11.06	\$10.20	\$10.22	\$10.16	\$8.86
Percentage change in rate	3.5%	14.1%	-	(7.8%)	0.2%	(0.6%)	(12.8%)

When comparing June 30, 2015 to June 30, 2014, an average bill for a Lower Mainland residential customer decreased by approximately 20 per cent, primarily due to a decrease in natural gas costs.

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

In September 2014, the BCUC issued its decision on FEI’s 2014 PBR Application. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 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 May and June 2015, the BCUC issued its decisions on FEI’s 2015 delivery rates and on the inclusion of the Vancouver Island and Whistler service areas under the PBR Plan. The decisions result in an amalgamated rate base of approximately \$3,661 million (excluding the separately approved rate base of approximately \$11 million for Fort Nelson) and a customer delivery rate increase of approximately 0.7 per cent over 2014 rates.

Allowed Return on Equity (“ROE”) and Capital Structure

A Generic Cost of Capital (“GCOC”) Proceeding to establish the allowed ROE and capital structures for BC regulated utilities occurred from 2012 to 2014. 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

Periods Ended June 30	Quarter			Year to Date		
	2015	2014	Variance	2015	2014	Variance
Gas sales (petajoules)	36	36	-	98	111	(13)
(\$ millions)						
Revenue	229	286	(57)	720	799	(79)
Expenses						
Cost of natural gas	73	120	(47)	290	371	(81)
Operation and maintenance	50	52	(2)	105	107	(2)
Depreciation and amortization	49	46	3	98	93	5
Property and other taxes	16	16	-	31	31	-
	188	234	(46)	524	602	(78)
Operating income	41	52	(11)	196	197	(1)
Finance charges	34	38	(4)	68	73	(5)
Earnings before income taxes	7	14	(7)	128	124	4
Income taxes	1	2	(1)	35	34	1
Net earnings	6	12	(6)	93	90	3

Net Earnings

The Corporation reported net earnings of \$6 million for the three months ended June 30, 2015 and net earnings of \$93 million for the six months ended June 30, 2015, compared to net earnings of \$12 million and net earnings of \$90 million in the corresponding periods 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 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 for the three months ended June 30, 2015 were lower by approximately \$8 million and net earnings for the six months ended June 30, 2015 were higher by approximately \$4 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 and six months ended June 30, 2015 were \$1 million and \$2 million lower, respectively, compared to the corresponding periods 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.

In addition to the above, operation and maintenance expense savings, net of the regulated Earnings Sharing Mechanism prescribed by the PBR Decision, and higher allowance for funds used during construction (“AFUDC”) contributed to higher net earnings in the three and six months ended June 30, 2015. This is partially offset by FEI having a tax loss utilization plan (“TLUP”) in place in the second quarter of 2014 which generated lower tax expense and the curving of revenue versus the incurrence of the related expenses was more pronounced in the second quarter of 2015 and year-to-date 2015 versus the same periods in 2014. Expenses are generally incurred evenly throughout the year while revenue is recognized based on seasonal gas volumes. As a result, net earnings were lower in the three and six months ended June 30, 2015 due to this curving of revenue versus the incurrence of the related expenses.

Gas Sales

For the three months ended June 30, 2015, gas sales volumes were comparable to the corresponding period in 2014 as lower consumption by residential and commercial customers as a result of warmer weather was offset by higher gas volumes for transportation customers due to certain transportation customers switching to natural gas compared to alternative fuel sources.

For the six months ended June 30, 2015, gas sales volumes were lower compared to the corresponding period in 2014 primarily due to lower average consumption in the first quarter by residential, commercial and transportation customers as a result of warmer weather.

Revenue and Cost of Natural Gas

For the three and six months ended June 30, 2015, revenues decreased by \$57 million and \$79 million, respectively, compared to the corresponding periods in 2014.

Lower revenues for the three months ended June 30, 2015 were primarily due to lower natural gas costs, the Earnings Sharing Mechanism, the effects of flow-through deferral amounts, the discontinuance of the RSDA and the TLUP in place in the prior year which contributed to higher revenue in 2014. This is partially offset by a higher equity component of AFUDC.

Lower revenues for the six months ended June 30, 2015 were primarily due to lower gas sales, lower natural gas costs, the Earnings Sharing Mechanism, the effects of flow-through deferral amounts and the TLUP in place in the prior year which contributed to higher revenue in 2014. This is partially offset by the discontinuance of the RSDA and a higher equity component of AFUDC.

For the three and six months ended June 30, 2015, cost of natural gas decreased by \$47 million and \$81 million, respectively, compared to the corresponding periods in 2014 primarily due to lower gas sales and lower costs for natural gas.

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, 2015, operation and maintenance expense decreased by \$2 million and \$2 million, respectively, compared to the corresponding periods in 2014. The decrease was due to lower labour costs and lower bad debts partially 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 and six months ended June 30, 2015, depreciation and amortization expense increased by \$3 million and \$5 million, respectively, compared with the corresponding periods in 2014. The increase was due to higher depreciation expense due to the increase in the depreciable asset base of the Corporation and higher amortization of regulatory asset deferral accounts.

Finance Charges

For the three and six months ended June 30, 2015, finance charges decreased by \$4 million and \$5 million, respectively, compared to the corresponding periods in 2014. The decrease was primarily a result of FEI having in place a TLUP in the prior year which generated higher interest expense in 2014 and a higher debt component of AFUDC in 2015 compared to 2014, partially offset by higher interest expense on long-term debt.

Income Taxes

For the three months ended June 30, 2015, income tax expense decreased by \$1 million, while for the six months ended June 30, 2015 income tax expense increased by \$1 million, respectively, compared to the corresponding periods in 2014. The decrease in income tax expense for the three months was primarily due to lower pre-tax earnings partially offset by FEI having in place a TLUP in 2014 which generated lower tax expense.

The increase in income tax expense for the six months was primarily due to higher pre-tax earnings and FEI having in place a TLUP in 2014 which generated lower tax expense in 2014 partially offset by higher deductible temporary differences.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at June 30, 2015 compared to December 31, 2014:

Balance Sheet Item	Increase (Decrease) (\$millions)	Explanation
Property, plant and equipment	139	The increase was primarily due to \$221 million in capital expenditures incurred during the period partially offset by depreciation expense of \$69 million and changes in non-cash capital accruals of \$33 million. The increase was also due to a \$13 million non-cash elimination of a contribution in aid of construction between FEVI and FEW.
Long-term debt	125	The increase was due to the issuance of long-term debt, partially offset by the repayment of the promissory note payable to FHI and the government loan repayable.
Common shares	85	The increase was due to the FEI equity issuance in the second quarter of 2015.
Income taxes payable	35	The increase was primarily due to current tax expense for the period and instalments transferred to the GST instalment account partially offset by a decrease in income taxes in respect of regulated deferrals treated on a net-of-tax basis and income taxes paid.
Short-term notes	(202)	The decrease was due to proceeds from the issuance of long-term debt and proceeds from the FEI equity issuance.

Balance Sheet Item	Increase (Decrease) (\$millions)	Explanation
Accounts receivable	(104)	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 and an increase in off-system sales volumes.
Accounts payable and other current liabilities	(59)	The decrease was mainly due to a reduction in capital accruals related to the Tilbury Expansion Project and a decrease in gas costs payable, partially offset by an increase in trade payables.
Inventories	(44)	The decrease was primarily due to the drawdown of natural gas in storage and a lower average commodity cost of natural gas held in storage.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Six Months Ended June 30 (\$ millions)	2015	2014	Variance
Cash flows provided by (used for):			
Operating activities	322	225	97
Investing activities	(230)	(120)	(110)
Financing activities	(99)	(97)	(2)
Net (decrease) increase in cash and cash equivalents	(7)	8	(15)

Operating Activities

Cash flows provided by operating activities were \$97 million higher for the six months ended June 30, 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 \$110 million higher for the six months ended June 30, 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 \$2 million higher for the six months ended June 30, 2015 compared to the corresponding period in 2014. The increase was primarily due to higher net repayments of short-term notes, an increase in dividends paid and borrowings from Fortis in 2014 with no such borrowings in 2015, partially offset by the issuance of long-term debt and the FEI equity issuance in the second quarter of 2015.

On May 21, 2015, the Corporation issued 10,483,702 common shares to FHI for total proceeds of \$85 million. The proceeds from the issuance will be used to finance capital expenditures.

During the three and six months ended June 30, 2015, the Corporation paid a common share dividend of \$37 million (2014 - \$58 million) and \$97 million (2014 - \$78 million), respectively, to its parent company, FHI. The year-to-date dividends include 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 estimated contractual obligations due in the years indicated:

As at June 30, 2015 (\$ millions)	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
Interest on long-term debt	2,265	126	112	101	101	101	1,724
Debt retirement ¹	2,050	80	200	-	-	-	1,770
Natural gas supply contract obligations	562	179	58	48	48	47	182
Capital lease and finance obligations	108	6	6	5	33	17	41
Power purchase obligations	548	-	6	12	13	13	504
Defined benefit pension plan funding contributions	26	18	8	-	-	-	-
Operating leases	13	3	3	3	2	2	-
Totals	5,572	412	393	169	197	180	4,221

¹ Included in debt retirement is \$5 million of the FEVI government loan that was reclassified to current portion of long-term debt as it is due within one 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 June 30, 2015.

In March 2015, FEI entered into an Electricity Supply Agreement ("ESA") with British Columbia Hydro and Power Authority ("BC Hydro") which provides for BC Hydro to supply electrical service for the Tilbury Expansion Project Phase 1A. FEI's estimated contractual obligations under the ESA are disclosed in the table above as power purchase obligations.

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, other than noted below.

In July 2015, Moody's affirmed the long-term credit ratings of the Corporation of A1 for secured long-term debt and A3 for unsecured long-term debt and affirmed the ratings outlook of stable.

Projected Capital Expenditures

The Corporation has estimated 2015 capital expenditures before contributions in aid of construction and including the cost of removal of approximately \$440 million, an increase of \$40 million from the \$400 million projected in the Corporation's 2014 annual MD&A. The increase primarily relates to the Tilbury Expansion Project Phase 1A.

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 second quarter of 2015, construction continued on the LNG tank and on the civil works in the process area and substation.

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 June 30, 2015, the Corporation had \$700 million syndicated credit facilities available of which \$547 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)	June 30, 2015	December 31, 2014
Total credit facilities	700	700
Short-term notes	(99)	(301)
Letters of credit outstanding	(54)	(50)
Credit facilities available	547	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 June 30, 2015, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of \$54 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 and six months ended June 30 were as follows:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Operation and maintenance expense charged				
to FBC (a)	1	1	2	2
Other income recovered from FHI (b)	-	4	-	4
	1	5	2	6

- (a) The Corporation charged FBC for office rent and management services.
- (b) During the prior year as part of a TLUP, the Corporation received dividend income from FHI relating to a \$1,400 million investment in preferred shares. A TLUP is a series of transactions, whereby the Corporation sets up an investment in an affiliate's preferred shares and issues subordinated debt to that affiliate; these two financial instruments are shown on a net basis. The Corporation receives non-taxable dividend income on the preferred shares and pays tax deductible interest on the debt. The effect of this transaction is to transfer tax losses between affiliated entities.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control for the three and six months ended June 30 were as follows:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Operation and maintenance expense charged by FBC (a)	2	1	3	3
Operation and maintenance expense charged by FHI (b)	3	3	6	6
Finance charges paid to FHI (c)	-	4	-	4
	5	8	9	13

- (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.
- (c) As part of a TLUP, the Corporation paid FHI interest on nil (2014 - \$1,400 million) of intercompany subordinated debt.

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:

(\$ millions)	June 30, 2015		December 31, 2014	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FHI	-	1	-	1
Debt due to FHI (a)	-	-	-	20
FBC	-	2	-	1
	-	3	-	22

- (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. In July 2015 FASB decided to defer by one year the effective date of its new 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.

Amendments to the Consolidation Analysis

In February 2015, FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis*. The amendments in this update change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This update is effective for annual and interim periods beginning on or after December 15, 2015 and may be applied using a modified retrospective approach or retrospectively. Early adoption is permitted. FEI is assessing the impact that the adoption of this update will have 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 June 30, 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 June 30, 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:

(\$ millions)	June 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion ¹	2,050	2,529	1,925	2,461
Natural gas supply contract premiums ²	23	23	11	11

¹ Includes unsecured debentures, purchase money mortgages, promissory notes and the current portion of the repayable government loan 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 loan.

² Included in accounts payable and other current liabilities as at June 30, 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 June 30, 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	23	-	-	23

¹ See the June 30, 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 June 30, 2015 and December 31, 2014, with respect to all natural gas derivative contracts:

(\$ millions)	June 30, 2015	December 31, 2014
Unrealized loss on natural gas supply contract premiums ^{1,2}	23	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 September 30, 2013 through June 30, 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 (\$ millions)	Revenue	Net Earnings (Loss)
June 30, 2015	229	6
March 31, 2015	491	87
December 31, 2014	452	57
September 30, 2014	238	(5)
June 30, 2014	286	12
March 31, 2014	513	78
December 31, 2013	475	56
September 30, 2013	214	(11)

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.

September 2014/2013 - The lower net loss was primarily due to the higher tax savings from the 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.

June 2015/2014 - Net earnings were lower primarily due to the discontinuance of the FEVI RSDA mechanism, the curving of revenue versus the incurrence of the related expenses which was more pronounced in the second quarter of 2015 versus the same period in 2014, a lower amalgamated ROE and deemed equity component of capital structure and FEI having a TLUP in place in the second quarter of 2014 which generated lower tax expense, partially offset by operation and maintenance expense savings, net of the regulated Earnings Sharing Mechanism prescribed by the PBR Decision, and higher AFUDC.

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 was renewed for a three year term which expires on March 31, 2018.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 323,921,714 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.

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