FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Interim Consolidated Financial Statements
For the three months ended March 31, 2017 and 2016
(Unaudited)

Prepared in accordance with United States Generally Accepted Accounting Principles

FORTIS BC™

FortisBC Energy Inc.
Consolidated Balance Sheets (US GAAP) (Unaudited)
As at
(in millions of Canadian dollars)

ASSETS	**March 31, 2017**	December 31, 2016
Current assets		
Cash and cash equivalents	**$ 2**	$ -
Accounts receivable (note 9)	**264**	228
Inventories	**19**	54
Prepaid expenses	**2**	3
Income taxes receivable	**-**	7
Regulatory assets	**62**	73
	349	365
Restricted cash	**-**	5
Property, plant and equipment	**4,178**	4,131
Intangible assets	**120**	122
Regulatory assets	**710**	749
Other assets	**15**	15
Goodwill	**913**	913
	$ 6,285	$ 6,300
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Credit facility (note 5)	**$ 134**	$ 194
Accounts payable and other current liabilities (note 9, 11 and 12)	**304**	349
Other taxes payable	**57**	38
Income taxes payable	**20**	-
Current portion of capital lease and finance obligations	**6**	6
Regulatory liabilities	**66**	83
	587	670
Long-term debt	**2,205**	2,205
Capital lease and finance obligations	**90**	92
Regulatory liabilities	**106**	89
Deferred income taxes	**422**	431
Other liabilities (note 9)	**214**	209
	3,624	3,696
Shareholder's equity		
Common shares	**1,171**	1,171
Additional paid-in capital	**1,245**	1,245
Retained earnings	**235**	178
	2,651	2,594
Non-controlling interest	**10**	10
	2,661	2,604
	$ 6,285	$ 6,300

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

FORTIS BC™

FortisBC Energy Inc.
Consolidated Statements of Earnings (US GAAP) (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

	2017	2016
Revenues		
Natural gas revenue	**$ 452**	$ 402
Other (expense) revenue	**(3)**	4
	449	406
Expenses		
Cost of natural gas	**181**	135
Operation and maintenance (note 11)	**55**	55
Property and other taxes	**17**	16
Depreciation and amortization	**51**	51
	304	257
Operating income	**145**	149
Other income	**12**	3
Finance charges (note 6)	**37**	31
Earnings before income taxes	**120**	121
Income taxes	**21**	30
Net earnings	**$ 99**	$ 91

FortisBC Energy Inc.
Consolidated Statements of Changes in Equity (US GAAP) (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

	Common Shares	**Additional Paid-in Capital**	**Non-controlling Interest**	**Retained Earnings**	**Total**
As at December 31, 2015	1,141	1,245	10	128	2,524
Net earnings	-	-	-	91	91
Dividend on common shares	-	-	-	(40)	(40)
As at March 31, 2016	$ 1,141	$ 1,245	$ 10	$ 179	$ 2,575
As at December 31, 2016	**1,171**	**1,245**	**10**	**178**	**2,604**
Net earnings	**-**	**-**	**-**	**99**	**99**
Dividend on common shares	**-**	**-**	**-**	**(42)**	**(42)**
As at March 31, 2017	**$ 1,171**	**$ 1,245**	**$ 10**	**$ 235**	**$ 2,661**

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

FORTIS BC™

FortisBC Energy Inc.
Consolidated Statements of Cash Flows (US GAAP) (Unaudited)
For the three months ended March 31
(in millions of Canadian dollars)

		2017		2016
Cash flows provided by (used for)				
Operating activities				
Net earnings	**$**	**99**	$	91
Adjustments for non-cash items				
Depreciation and amortization		**51**		51
Equity component of allowance for funds used during construction		**(4)**		(3)
Change in long-term regulatory assets and liabilities		**34**		7
Change in other long-term liabilities		**-**		-
Change in non-cash working capital (note 8)		**9**		12
		189		158
Investing activities				
Property, plant and equipment (note 8)		**(90)**		(85)
Intangible assets (note 8)		**(3)**		(2)
Contributions in aid of construction		**-**		2
Change in other assets and other liabilities		**5**		1
Restricted cash		**5**		-
		(83)		(84)
Financing activities				
Net repayment of credit facilities		**(60)**		(33)
Repayment of capital lease and finance obligations		**(2)**		(2)
Dividend on common shares		**(42)**		(40)
		(104)		(75)
Net increase (decrease) in cash and cash equivalents		**2**		(1)
Cash and cash equivalents at beginning of period		**-**		3
Cash and cash equivalents at end of period	**$**	**2**	$	2

Supplementary Information to Consolidated Statements of Cash Flows (note 8).

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

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 997,500 residential, commercial and industrial and transportation customers in more than 135 communities. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial statements and are presented in Canadian dollars unless otherwise specified. As a result, these interim consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Corporation's 2016 annual audited consolidated financial statements prepared in accordance with US GAAP. In management's opinion, the interim consolidated financial statements include all adjustments that are of a recurring nature and necessary to present fairly the consolidated financial position of the Corporation.

The accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in FEI's year-end audited consolidated financial statements as at December 31, 2016.

The interim consolidated financial statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as a non-controlling interest. All material inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through April 25, 2017, the date these interim consolidated financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the interim consolidated financial statements as at March 31, 2017. Subsequent events have been appropriately disclosed in these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current year's presentation.

New Accounting Policies

Simplifying the Test for Goodwill Impairment

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

Future Accounting Pronouncements

FEI considers the applicability and impact of all ASU's issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FEI. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016, a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Corporation has elected not to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Corporation expects to use the modified retrospective approach, however, it continues to monitor industry developments. Any significant industry developments could change the Corporation's expected method of adoption.

The majority of the Corporation's revenue is generated from natural gas sales to customers based on published tariff rates, as approved by the BCUC, and is considered to be in scope of ASU No. 2014-09. FEI does not expect that the adoption of this standard, and all related ASUs, will have a material impact on the recognition of revenue generated from natural gas sales to customers, or on its remaining material revenue streams; however, the Corporation does expect it will impact its required disclosures. Certain industry specific interpretative issues remain outstanding and the conclusions reached, if different than current practice, could have a material impact on the Corporation's consolidated financial statements and related disclosures. FEI continues to closely monitor industry developments related to the new standard.

Recognition and Measurement of Financial Assets and Financial Liabilities

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of Credit Losses on Financial Instruments

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

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

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, however, early adoption must be within the first interim period of a reporting year. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

3. REGULATORY MATTERS

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

In September 2014, the British Columbia Utilities Commission ("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, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 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 provides a forum for discussion between FEI and interested parties regarding its current performance and future activities.

In December 2015, the BCUC issued its decision on FEI's 2016 delivery rates. The decision resulted in a 2016 average rate base of approximately $3,693 million (excluding the rate base of approximately $11 million for Fort Nelson) and a customer delivery rate increase of 1.79 per cent over 2015 rates.

In December 2016, the BCUC issued its decision on FEI's 2017 delivery rates. The decision results in a 2017 average rate base of approximately $3,705 million (excluding the rate base of approximately $11 million for Fort Nelson) and no increase in customer delivery rates.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for natural gas, the movements of natural gas prices and the timing and recognition of regulatory decisions. FEI's operations generally produce higher net earnings in the first and fourth quarters of the fiscal year and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. These fluctuations in quarterly net earnings are generally the result of changes in revenue from customer load as a result of weather while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

5. CREDIT FACILITY

As at March 31, 2017, the Corporation had a $700 million syndicated credit facility available, of which $514 million (December 31, 2016 - $454 million) was unused. The $700 million credit facility matures in August 2021.

The following summary outlines the Corporation's credit facility:

($ millions)	**March 31, 2017**	December 31, 2016
Credit facility	**700**	700
Draws on credit facility	**(134)**	(194)
Letters of credit outstanding	**(52)**	(52)
Credit facility available	**514**	454

6. FINANCE CHARGES

Finance charges for the three months ended March 31 were as follows:

($ millions)	**2017**	2016
Interest on long-term debt, capital leases and finance obligations [1]	**31**	33
Finance charges paid to FHI (note 11)	**8**	-
Interest on short-term debt	**1**	1
Debt component of allowance for funds used during construction ("AFUDC")	**(3)**	(3)
	37	31

[1] Includes amortization of debt issuance costs.

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. The Corporation also provides post-employment benefits ("OPEB") other than pensions for retired employees.

The net benefit cost for the three months ended March 31 was as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2017**	2016	**2017**	2016
Service costs	**5**	4	**1**	1
Interest costs	**6**	6	**1**	1
Expected return on plan assets	**(8)**	(7)	**-**	-
Amortization:				
Actuarial losses	**-**	1	**-**	1
Past service costs	**-**	-	**-**	(1)
Regulatory adjustment	**-**	1	**-**	1
Net benefit cost	**3**	5	**2**	3

8. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the consolidated statements of cash flows for the three months ended March 31 was as follows:

Significant Non-Cash Transactions

($ millions)	**2017**	2016
Fair value of natural gas derivatives	**(6)**	19
Capital accruals	**5**	12
Regulated asset for deferred income taxes	**9**	(6)

Change in Non-Cash Working Capital

($ millions)	**2017**	2016
Accounts receivable	**(32)**	21
Inventories	**35**	44
Prepaid expenses	**1**	2
Accounts payable and other current liabilities	**(36)**	(67)
Other taxes payable	**19**	9
Income taxes payable	**27**	3
Current regulatory assets and liabilities	**(5)**	-
	9	12

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

($ millions)	**2017**	2016
Additions to property, plant and equipment and intangible assets included in current liabilities	**17**	9

During the quarter ended March 31, 2017, restricted cash of $5 million held in escrow as at December 31, 2016 was released.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation engages in price risk management activities to limit the exposure to fluctuations in natural gas prices.

In December 2015, the Corporation filed a 2015 Price Risk Management Application ("Application") with the BCUC. The Corporation requested BCUC approval to implement specific price risk management tools and strategies to limit the exposure to fluctuations in natural gas prices for customers who receive commodity supply from FEI. These included enhancements to the commodity rate setting mechanism as well as the use of derivative instruments based on pre-defined market price targets and maximum volume limits. In June 2016, the BCUC approved the Application. Since July 2016, FEI's future commodity rate setting has incorporated the rate setting enhancements and FEI implements derivative instruments if the market price targets are reached for any terms out to March 2019. During the quarter ended March 31, 2017, the market price targets approved by the BCUC were reached and the Company entered into fixed price financial swaps to hedge against the physical natural gas contracts.

Volume of Derivative Activity

As at March 31, 2017, the Corporation had the following notional volumes of outstanding natural gas commodity derivatives that are expected to be settled as outlined below:

	2017	2018	2019	2020	2021	Thereafter
Natural gas physically-settled supply contracts (petajoules)	80	45	31	28	22	43
Natural gas financially-settled fixed price commodity swaps (petajoules)	9	4	-	-	-	-

Presentation of Derivative Instruments in the Financial Statements

In the Corporation's consolidated balance sheets, derivative instruments are presented on a gross basis.

At March 31, 2017, the Corporation's outstanding derivative balances, which consisted of physically-settled natural gas supply contracts and financially-settled natural gas commodity swaps, were as follows:

($ millions)	**Gross Derivatives Balance[1]**	**Gross Amounts Not Offset in the Balance Sheet [2]**	**Margin Deposits Not Offset in the Balance Sheet**	**Total Net Derivatives Balance**
Natural gas supply contracts and commodity swaps:				
Accounts receivable	**3**	**-**	**-**	**3**
Accounts payable and other current liabilities	**8**	**-**	**-**	**8**
Other liabilities	**3**	**-**	**-**	**3**

[1] See note 10 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, 2016, the Corporation's outstanding derivative balances, which consisted of physically-settled natural gas supply contracts, were as follows:

($ millions)	Gross Derivatives Balance[1]	Gross Amounts Not Offset in the Balance Sheet [2]	Margin Deposits Not Offset in the Balance Sheet	Total Net Derivatives Balance
Natural gas supply contracts:				
Accounts payable and other current liabilities	10	-	-	10
Other liabilities	4	-	-	4

[1] See note 10 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.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The following table shows the cumulative unrealized losses at March 31, 2017 and December 31, 2016, with respect to all natural gas supply contracts and commodity swaps:

($ millions)	**March 31, 2017**	December 31, 2016
Unrealized loss on natural gas supply contracts and commodity swaps [1,2]	**8**	14

[1] Unrealized gains and losses on commodity risk-related derivative instruments are recorded in 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.

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's consolidated statements of cash flows.

10. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchases and normal sales exception.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets.

Level 2: Fair value determined using pricing inputs that are observable.

Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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 and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable and other current liabilities and credit facility – the carrying values on the consolidated balance sheets of the Corporation approximate their fair values because of the short maturity of these instruments.

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

Natural gas commodity derivatives – the fair values are estimates of the amounts that the Corporation would receive or pay to terminate the outstanding contracts as at the balance sheet date. None of the natural gas commodity derivatives were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity derivatives are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC.

10. FAIR VALUE MEASUREMENT (continued)

The following table summarizes the fair value measurements of the Corporation's long-term debt and natural gas supply contracts and commodity swaps as of March 31, 2017 and December 31, 2016, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value or fair value:

	March 31, 2017		December 31, 2016	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Assets				
Current				
Natural gas commodity swaps[1]	**3**	**3**	**-**	-
Liabilities				
Current				
Natural gas supply contracts [1]	**8**	**8**	10	10
Long-term				
Long-term debt [2]	**2,220**	**2,711**	2,220	2,687
Natural gas supply contracts [1]	**3**	**3**	4	4

[1] Natural gas supply contracts and commodity swaps that are "in the money" are included in accounts receivable or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

[2] Carrying value excludes unamortized debt issuance costs of $15 million (2016 - $15 million).

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FHI, ultimate parent, Fortis, and other related companies under common control, including FortisBC Inc. ("FBC"), and Aitken Creek Gas Storage ULC ("ACGS"), in financing transactions and to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

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

($ millions)	**2017**	2016
Operation and maintenance expense charged to FBC (a)	**1**	1
Other income received from FHI (b)	**8**	-
	9	1

(a) The Corporation charged FBC for natural gas sales, office rent, management services and other labour.

(b) As part of a tax loss utilization plan ("TLUP"), the Corporation received dividend income from FHI relating to a $2,500 million (2016 - nil) 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.

11. RELATED PARTY TRANSACTIONS (continued)

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)	**2017**	2016
Operation and maintenance expense charged by FBC (a)	**2**	1
Operation and maintenance expense charged by FHI (b)	**3**	3
Finance charges paid to FHI (c)	**8**	-
Gas storage and purchases charged by ACGS (d)	**8**	-
	21	4

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

(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 $2,500 million (2016 - nil) of intercompany subordinated debt.

(d) ACGS charged the Corporation for the lease of natural gas storage capacity and natural gas purchases.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties which are included in accounts payable and other current liabilities on the consolidated balance sheets, are as follows:

	March 31, 2017		December 31, 2016	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FBC	**-**	**1**	-	1
ACGS	**-**	**3**	-	3
	-	**4**	-	4

12. GUARANTEES

The Corporation has letters of credit outstanding at March 31, 2017 totaling $52 million (December 31, 2016 - $52 million) primarily to support its unfunded supplemental pension benefit plans.

During the last half of 2016, FEI received cash of approximately $64 million as security for development expenditures incurred on the Eagle Mountain Woodfibre Gas Pipeline Project. This form of security replaces a letter of credit that was previously held. If the project proceeds, the cash deposit received may be refunded and replaced by a letter of credit. Alternatively, if the project does not proceed, the cash deposit will be used to offset FEI's existing development expenditures. The $64 million of cash deposits were used to repay FEI's credit facilities, with the offset recognized as a deposit in current liabilities, and were classified as a source of cash under financing activities in the statement of cash flow.